In the name of Allah
the most
Compassionate and Merciful

The Center for the Publication of the U.S. Espionage Den's Documents

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IN THE NAME OF ALLAH
THE MOST COMPASSIONATE THE MOST MERCIFUL

INTRODUCTION:

I recommend that the leaders of the Persian Gulf countries not humiliate themselves and their nations for the sake of a person(Saddam Hussein)who is politically, militarily and economically destitute. Do not disclose your weakness by seeking the shelter of America. Don't ask the wolves and rapacious animals to help you preserve your interests.

The superpowers will make you and their best friends their victims wherever their interests dictate. For them, friendship, kindness, servitude and honesty are meaningless and without value. They think only about their own interests, which they have stated everywhere. It would be better if the stooge leaders of the Islamic countries advise their masters and gods of gold, aggression and hypocrisy that they should not speak so much about their interests in the Persian Gulf, because it is over this matter that the people of region are very sensitive. It makes them wonder what kind of interests do the U.S., France and England have in the waters of the Persian Gulf, that they want to safe ard it to the extent of military interference and provoke war.

Part of Imam Khomeini's Hajj Message
1407 Lunar Hijra

After the advent of the Islamic Revolution in Iran, the arrogant powers of the world, especially the U.S. mobilized all their powers to confront the Islamic Revolution. In this regard, on one hand the agents of the defunct Shah tried to weaken the Islamic Revolution through sabotage activities inside the country and on the other, the arrogant powers hastened to impose economic sanctions on Iran.

Therefore the U.S. in order to achieve its latest objective, orders all its spies to gather information about the possibility of the exportation of the Islamic Revolution and its effects on the Persian Gulf Arab states.

The document used in this volume describes the economical and political process in the countries of the Arabian Peninsula. The document was gathered in Iran during the first two months after the advent of the Islamic Revolution by the Economic Research Bureau for the Developing Countries. The aim of the report being explained in its introduction:

"The purpose of this paper is to (a) provide the foreign policy community with an information base on the countries of the Arabian Peninsula; (b) identify major social, political and economic pressures for change in the region and, to the extend possible, the relationships among these factors; and (c) draw parallels and differences between the forces for change in Iran and in the Arabian Peninsula countries."

By studying the document, the U.S. fear of the Islamic Revolution is obvious, the U.S. intelligence agents by exploiting the local information sources, have gathered and classified the latest information about the economical, political and military conditions, of the Persian Gulf Arab states.

After the advent of the Islamic Revolution in Iran, truly the U.S. started an "information mobilization" about Iran's neighboring countries, especially the Persian Gulf states, in order to prevent the expansion of the Islamic Revolution. The purpose of the information gathering was to study ways and means which could result in an Islamic Revolution in the regional countries and to take necessary measures in order to decrease the vulnerability of the unpopular Persian Gulf Arab governments.

Since the U.S. view about the Islamic Revolution has been an unrealistic one and the U.S. has been insisting on its view through false propaganda and diplomacy, therefore, U.S. opinion has influenced all the documents.

In this document, the effects of the Islamic Revolution in Kuwait, Hijaz (Saudi Arabia), Bahrain, Qatar, the United Arab Emirates and Oman have been more emphasized than South and North Yemen.

Of course the U.S. is more sensitive about the six mentioned Persian Gulf states, because the Democratic Republic of Yemen (South Yemen) is not a member state of the U.S. satellite countries and the Yemen Arab Republic (North Yemen) is a poor country and does not enjoy a very good geo-political condition.

The following subjects have been more important for the U.S.:

1. An analysis about the formation of the Islamic Revolution with a materialistic view. Because in the beginning of the book in the chapter, under the title of "a General View", the book attributes the Iranian peoples' dissatisfaction of the Shah's regime to the oil price increase and contradiction between the Shah's modernization plans and Iranian social traditions.

2. The book considers reformation as a means to prevent the expansion and exportation of the Islamic Revolution.

3. The book considers another reason for the Shah's downfall as the thesis of "defending the country" even at the price of social welfare.

4. In different parts of the book, it has been mentioned that by initiating massive economical reforms for their people, the Persian Gulf states want to prevent the Islamic Revolution (it seems the writer has been optimistic about this thesis).

5. The armed forces of these countries could be considered as "buffer forces" and they can only resist till the reinforcements come to their aid.

6. So far, because of the fear of an Islamic Revolution, the rulers of the Persian Gulf Arab states, have begun to serve their people more than ever.

The U.S. and other arrogant powers, have always failed to understand that the Islamic Revolution can not be contained and the Islamic Revolution, as a pure ideology has been popular among all human beings and those who love freedom and justice. The U.S. believes that it can prevent the expansion of the Islamic Revolution by economic, political and military means and in this regard the U.S. has stepped up its activities.

Despite all the U.S. attempts, now all the oppressed people have understood the meaning of exportatioin of the Islamic Revolution.

Without a doubt, the blessed effects of the Islamic Revolution have touched all the Islamic world and today, Islam as a spiritual and moral power has stood up against all arrogant powers.

If the Islamic Revolution in Iran had not succeeded and the satanic power of the U.S. had not been damaged by its victory then:

1. The unpropitious Camp David accord, which not only included Egypt but all other Arab countries could have eventually resulted in a great victory for the Zionist regime and its supporters.

2. Sadat's revolutionary assassination would not have taken place and its effects would not have shaken the revolutionary Egypt and endangered the U.S. interests in that country.

3. Governments such as the Al-Saud regime would never obliged themselves to follow Islamic regulations and without any hesitation the Saudi regime would let the U.S. exploit all the facilities of Islamic Hijaz (Saudi Arabia).

4. Ja'afar Numeiri's regime would still be in power in Sudan and....

5. In Lebanon, the political geography would have differed greatly from that of today and the U.S. and French marines would not have been targeted by the brave Muslim Lebanese.

6. In Tunisia, the ruling regime would never have feared the Muslim Tunisian people.

Without a doubt, U.S. imperialism will react against the Islamic Revolution and if it does not take advantage of its conspiracies, will never hesitate to use its aggressive military forces. Because imperialism's aggressive behavior cannot tolerate the spread of the rare and pure thought of revolutionary Islam, Imperialism believes that the existence and expansion of the Islamic Revolution will result in its final defeat and destruction.

But since the day they chanted "neither East nor West", the followers of the Islamic Revolution have prepared themselves for confronting the arrogant powers and the attainment of victory or martyrdom.

In conclusion, as Imam Khomeini mentioned in his Hajj Message, *"I can confidently say that Islam will defeat all the superpowers. Islam will remove all its internal and external obstacles, one by one and will conquer the world's key ideological strongholds".*

Muslim Students Following
the Line of the Imam
WINTER 1987

As the following pages;7,13,31,37 53 and 60 were blank in the original, they were omitted in this reproduction.

National
Foreign
Assessment
Center

Economic and Political Trends in the Arabian Peninsula (U)

An Intelligence Assessment

Research for this report was completed on 30 March 1979.

The principal authors of this paper are Gordon Fralin and Thomas Zorn, Developing Nations Division, Office of Economic Research. A number of other analysts participated in its preparation, from the Offices of Economic Research, Political Analysis, Central Reference, Geographic and Cartographic Research, and Strategic Research. Comments and queries are welcome and should be directed to Mr. Fralin or Mr. Zorn, telephone 351-7234. (U)

The paper has been coordinated within the Office of Economic Research and with the Offices of Political Analysis, Strategic Research, Geographic and Cartographic Research, and Central Reference. (U)

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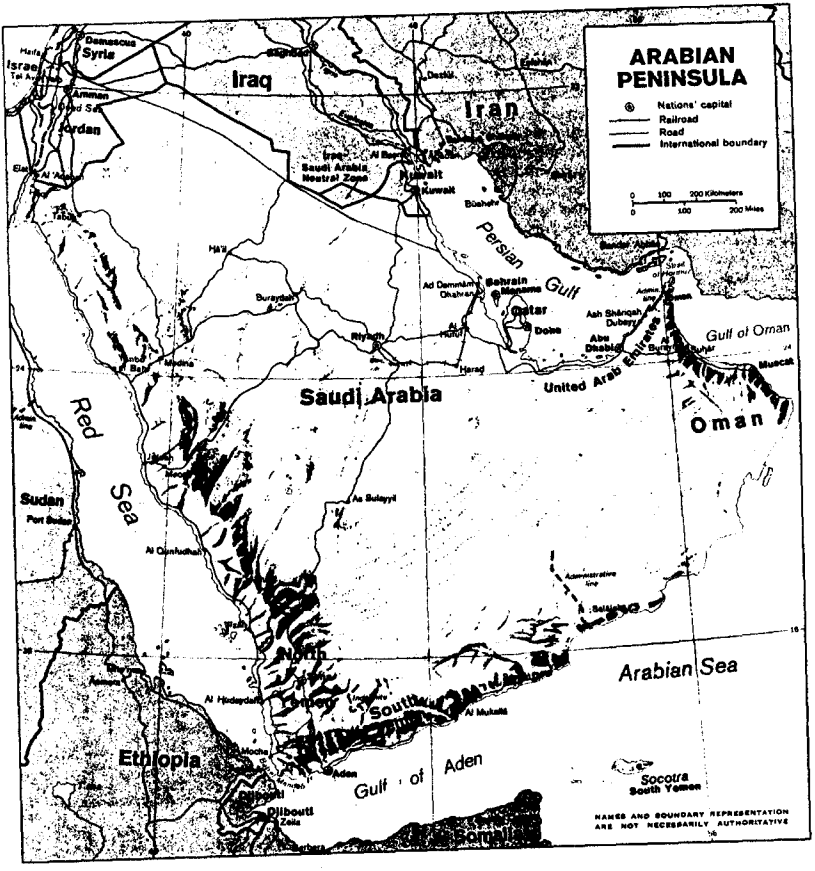
Preface

The purpose of this paper is to (a) provide the foreign policy community with an information base on the countries of the Arabian Peninsula; (b) identify major social, political, and economic pressures for change in the region and, to the extent possible, the relationships among these factors; and (c) draw parallels and differences between the forces for change in Iran and in the Arabian Peninsula countries. This assessment in no way is to be interpreted as an estimate of the survivability of the ruling governments of the region. (c)



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Economic and Political Trends in the Arabian Peninsula (U)

Overview

The OPEC price hikes of 1973/74 greatly enhanced the position of the Arabian Peninsula in the world and set in motion powerful forces for change from within. In the past few years, all of the countries in the region have adopted rapid economic modernization programs, which—as in the case of Iran—pose threats to traditional social values. Many have experienced attendant negative effects in the form of distribution bottlenecks, accelerated inflation, increased exposure to foreign influences, widened income disparities, and corruption. Like Iran's Government, their governments are dominated by ruling families who are reluctant to share power with an emerging middle class. (C)

Nevertheless, beyond these similarities, the parallel with Iran ends or is less pronounced. Although democratic institutions throughout the region are weak, most countries employ traditional practices that allow grievances and demands of the people to filter up to the center of government. In most cases, concern for religious mores is an important policy consideration. While the Iranian upheaval and its geopolitical implications are cause for serious concern within the Arabian Peninsula, most of these countries seem headed for gradual, grudging political change combined with a slowdown in the pace of economic and social modernization in the near term rather than for cataclysmic revolution. (C)

The Arabian Peninsula and the World

Possession of major oil resources has catapulted countries of the Arabian Peninsula into world prominence. It has given the region a voice in OPEC and Arab affairs that otherwise would not have existed. The escalation in oil prices in the early 1970s also gave the richer countries of the region broad international responsibilities for which their leadership and institutions were poorly prepared to handle. (C)

Known oil deposits of the Arabian Peninsula constitute 48 percent of total Free World reserves; crude production in 1978, mainly from three countries on the Persian Gulf, amounted to 28 percent (see figure 1). (C)

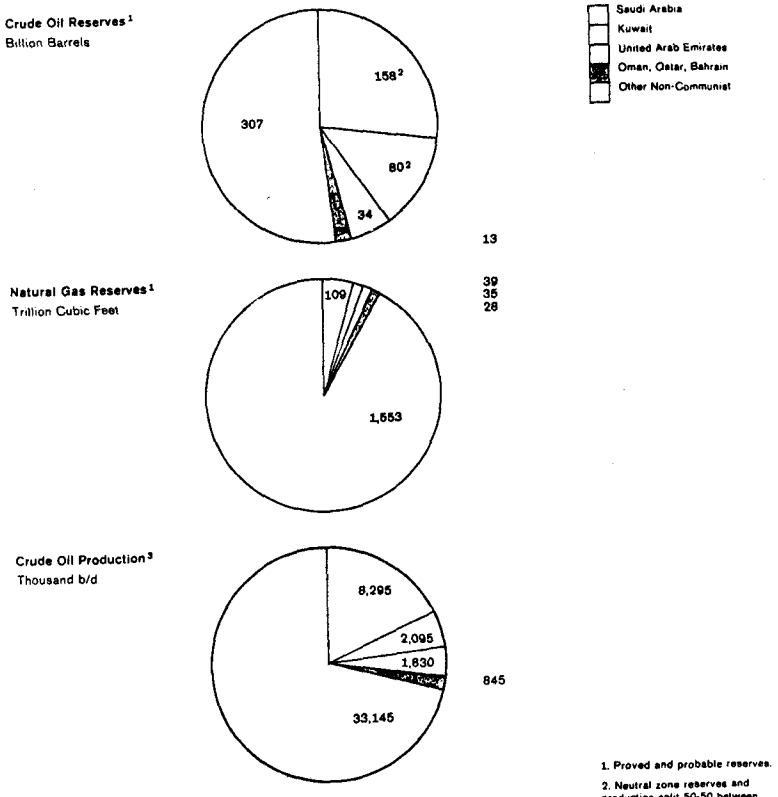
Depletion of reserves already has caused output in Bahrain and Oman to peak. Although no oil has been discovered in the Yemens, they nevertheless have benefited from their neighbors' riches. (C)

Saudi Arabia is the largest producer in the region, ranking second after the USSR in world output. Because of their potential to expand production even further, the Saudis have been regarded as the supplier of last resort and the focus of international pressure to hold down oil prices. The ability to draw on their surplus capacity in the past has in fact been used as a lever to moderate OPEC price decisions that the Saudis felt threatened world economic stability. Mainly in the interest of preserving their only valuable natural resource, Saudi Arabia, Kuwait, and the UAE have all placed production ceilings on oil. Given the decline in Iranian crude production in recent months and associated world shortage, the Saudis have lost much of their power to influence OPEC pricing policy. (C)

Another feature affecting the views of the oil-rich Peninsula countries on production levels is their accumulation of official foreign assets (see figure 2). Despite headlong economic development drives and large foreign aid programs, small populations and low absorptive capacities have prevented full use of the oil revenues. In the space of five years, the region's official foreign reserve assets grew from 5 percent of Free World holdings to 17 percent in 1978. The four main oil producers now hold more than $105 billion, the entire Peninsula $108 billion—much of this in US and

Figure 1

Arabian Peninsula
Importance to Non-Communist Energy, 1978



1. Proved and probable reserves.

2. Neutral zone reserves and production split 50-50 between Saudi Arabia and Kuwait.

3. Excluding natural gas liquids.

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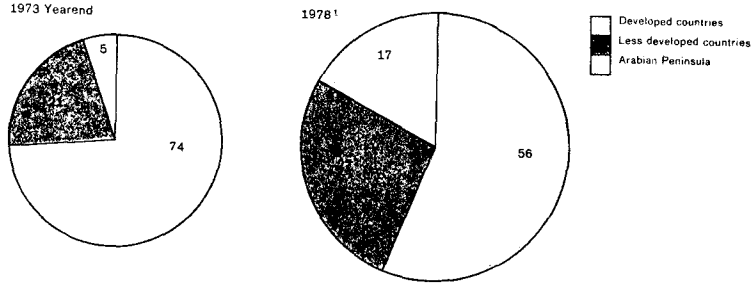
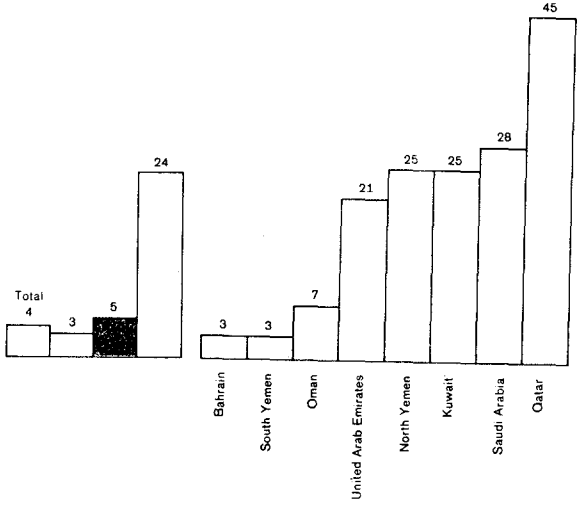
Arabian Peninsula
International Reserve Assets

Figure 2

Percent Distribution



Equivalent Months of Imports, 1977



1. As of 30 June 1978.
2. Includes non-Arabian Peninsula oil-exporting countries.

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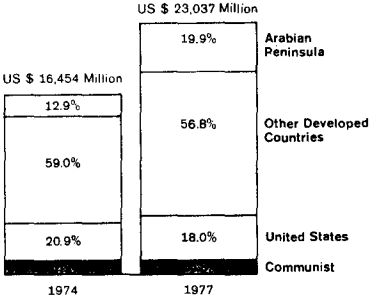
Figure 3
Arabian Peninsula
Importance as an Economic Aid Donor



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West European securities. Saudi Arabia alone has larger reserve assets than either West Germany or Japan. Great financial flexibility is afforded by these holdings, which among the wealthier countries represent 20 to 45 months of imports compared with a general standard of five months for LDCs. (S NF)

Oil revenues have significantly strengthened the diplomatic hand of the major regional producers. Fear of Soviet encirclement and of radical Arabs—including South Yemen on the Peninsula itself—has prompted the conservative countries to seek support from the West, mainly the United States. Simultaneously, they have emphasized Arab unity through heavy aid flows. Donations from the Peninsula's four largest oil producers to the Arab confrontation states—Egypt, Jordan, and Syria—have been instrumental in keeping them afloat. Aid has also been dispensed to poorer neighbors, Bahrain, Oman, and the Yemens in the self-interest of maintaining stability in the Peninsula. (C)

On balance, these policies have allowed the conservative Peninsula states at least a tempering influence in Arab deliberations and have helped to preserve Gulf credentials in the Arab brotherhood. Aid to world LDCs, proffered from a stance of noblesse oblige, has been confined largely to Muslim countries (see figure 3). In 1977 it was greater than that extended by the United States. Indeed, foreign assistance as a percentage of GNP reached phenomenal levels, amounting to 4 percent for Saudi Arabia and 10 percent for Kuwait. (C)

The Economic Boom

The escalation in world oil prices in the 1970s directly or indirectly provided both the impetus and the wherewithal to diversify the economies of all the countries of the Arabian Peninsula. In doing so, it set in motion a process of modernization that puts increasing distance between economic and social values and the political systems within which they must operate. However, in contrast to the Iranian situation, many of the region's countries began to scale back their development goals in the mid-1970s, and none of them emphasized defense at the expense of social welfare to the extent that was done in Iran. (C)

On the Persian Gulf side of the Peninsula, growing oil revenues stimulated real economic growth of more than 20 percent annually in 1974-77 in the nonoil sectors of all countries except Kuwait—where it averaged 8 percent. Construction, internal trade, and government services led the way in most cases. North Yemen, benefiting from sharp increases in remittances from citizens attracted to jobs in the oil-rich countries, saw its GNP rise 17 percent annually in the later part of the period. (C)

Social welfare was given a high priority in most of the development programs, and today most citizens are materially better off than a decade ago. Free schooling, health care, and freedom from income taxes are the rule of thumb except in the Yemens; housing and food are generally subsidized. At the same time, in many cases income distribution has become more skewed. Corruption by the royalty is widespread. The rulers and their associates, as well as some landowners and

merchants, are probably even wealthier relative to average citizens today than before the boom. The disparity is particularly bad in Oman where Sultan Qabus' cronies have feathered their own nests. (C)

While improving the social services available to citizens, the drive to diversify, economically, brought on distribution bottlenecks and accelerated inflation in most cases. Contract bids incorporating inflationary trends drove costs up further, resulting in waste. A great deal was expended on showcase projects and, worse yet, on ill-conceived enterprises such as the UAE's four international airports located within a few hundred kilometers of each other. A number of heavy industrial projects are based on imported raw materials that will likely make their products uncompetitive. Saudi Arabia's plans for a petrochemical industry involve such high capital costs that the government may have to subsidize feedstocks to ensure the overall profitability of the ventures. (C)

Economic problems and mounting worries about the social implications of modernization caused several Peninsula countries to slow down their development drives in the mid-1970s. Saudi Arabia postponed several industrial projects in 1976 and pushed back implementation of other projects during a cash flow crisis in 1978. Budget and balance-of-payments problems caused Oman to cut back its development expenditures in 1977, and Kuwait has been conservative in its approach to economic growth throughout the 1970s. (C)

Social Strains

The slowdown in the development drive has also reflected fears of growing dependency on foreign labor to fill manpower gaps and technological inadequacies. Egyptians, Jordanians, and Palestinians have moved into positions in skilled or semiprofessional occupations and the civil service. Westerners, although limited in number, dominate technological requirements, while Pakistanis, Indians, and South Koreans fill the bulk of unskilled employment. In Saudi Arabia, roughly one out of three in the total population and more than half the labor force is foreign. In Kuwait, Qatar, and the UAE, natives are actually in the minority of the population. (C)

Each of the foreign groups imparts certain anxieties to the host governments. The Palestinian presence is particularly troublesome and tends to harden the host country's position on Arab-Israeli issues. Westerners are seen as carriers of materialism and liberalism, while Asian customs are strange to the Arabs. None of the foreign groups is compatible with fundamental Peninsula mores, except for the Yemenis resident in the oil-rich countries. Resident foreigners such as Egyptians and Palestinians—some of whom have lived in their host countries for a generation—often are paid less than local counterparts and seldom are permitted to acquire citizenship. Usually foreigners receive fewer social benefits than citizens. Generally, the trend is to discourage immigrants who might want to stay permanently and to deport troublemakers quickly. (C)

The modernization of the Peninsula may have heightened some tensions among local religious elements, although, for now, most appear under control. Sunni Muslims dominate the region, but there are significant groups of Shia Muslims in the Eastern Province of Saudi Arabia, where oil resources are located, and in Kuwait; Shias account for 60 percent of the population in Bahrain. Historically, the Shias have engaged in menial labor, working for Sunni landowners and businessmen. Typically they have been discriminated against and barred from certain professions. Age-old antagonisms between Shia and Sunni sects in North Yemen also have a regional and tribal cast. The Shias in Saudi Arabia are believed to have no particular affinity for Iranian political developments and appear to have gained enough economic ground in recent years to forestall any serious agitation. In Bahrain, pro-Khomeini supporters among the Shias are stronger; pro-leftist forces are also strong there. (S)

Social Insulators

Despite the strains of recent years, most countries of the Arabian Peninsula have experienced little social agitation and student unrest. So far, the few instances of pressure for broader based government have been checked without major upheaval. In Bahrain, opposition to the ruling Khalifa family's suspension of the National Assembly and refusal to permit labor unions has been weak, although opposition groups have been

pushing for more responsible and responsive government in recent weeks. Kuwait's Sabah family is encouraging debate on reinstating the legislature after concluding from the Shah's experience that suppression of political expression is dangerous. With the quieting of the rebellion in Dhofar in the mid-1970s, opposition to Qabus' rule in Oman has been, at least superficially, slight. (C)

Although it may be tenuous, social stability on the Persian Gulf side of the Peninsula stems from the strength of tradition. The hierarchies enjoy a generally accepted historical legitimacy and maintain good relations with domestic religious establishments. The typical loose-structured governing process is built on tribal loyalty to a royal family, and this in turn requires a family consensus on the choice of a ruler and major policy decisions. As keeper of spiritual values, the ruler, at least outwardly, conforms to codes set by the religious community. His feel for popular views is gained through periodic holding of a *majlis*, or open court, where even the lowliest citizen can petition about grievances. Extensive consultations with major tribal leaders and important merchants help air the views of the middle class. (C)

As a base of political power, the role of the military tends to be minor. Defense spending constitutes a relatively unimportant share of national income in most cases, and in no case has military spending detracted from economic needs because of the flexible financial margins these countries enjoy. The armed forces have been given primarily a deterrent mission, which is to hold off attack until outside help arrives. Upgrading of the military with sophisticated weaponry has done little so far to enhance force capabilities. Most are well below their targeted strengths because of the attraction of civilian job opportunities, causing several countries to experiment with socially unpopular conscription programs. (S)

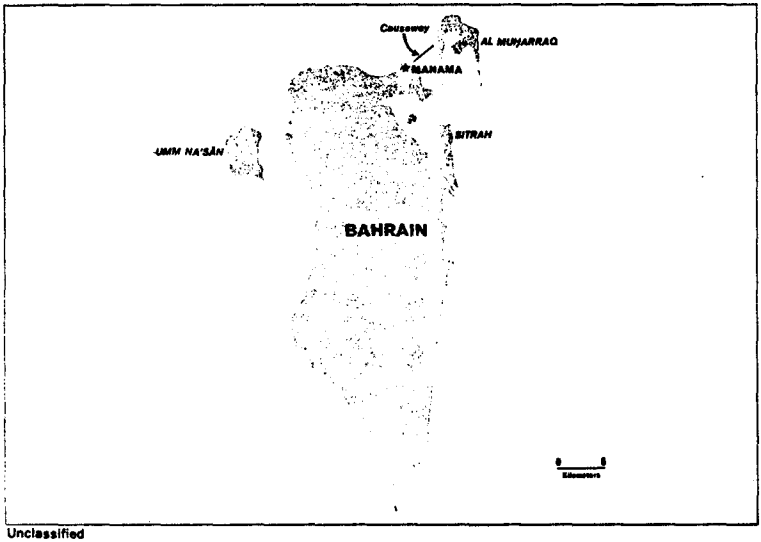
The two Yemens, on the southwest tip of the Peninsula, constitute exceptions. South Yemen's leadership, which operates under a Marxist regime patterned on the Soviet model, maintains political and social control through the all-pervasive Yemen Socialist Party. Most of the regime's support is drawn from urban areas, especially around Aden. Although the government has been somewhat successful in breaking down tribal ties, some opposition still exists in outlying areas. North Yemen's Government evolved from the revolution of the 1960s to an elected legislature that, through a series of coups and assassinations, is now headed by a lackluster military officer with little popular support. Saudi Arabia, which has long meddled in Sana's affairs, provides large amounts of aid to the central government and to various tribes to try to ensure a friend in the capital under any circumstances. (S)

Backlash From Iran

Despite numerous differences, events in Iran have precipitated a general uneasiness in the Arabian Peninsula. The ruling hierarchies have begun to reexamine their domestic affairs to determine the extent to which they are vulnerable to the massive upheaval Iran has experienced. Debate reportedly is growing over the wisdom of continuing a rapid pace of modernization and, for the present, the advocates for conservatism and economic slowdown appear to be in the lead. The word has gone out to dampen conspicuous consumption, and adherence to religious tenets is advertised more publicly. For the near term, it seems likely that ceilings on oil production will be maintained and less regard given to accumulating foreign assets. Although there is little evidence of moves to liberalize the political process, if such were allowed to develop quickly the rulers probably would face prospects of hastening their own demise. At the same time, some concessions to political change will be inevitable to assuage the demands of a growing middle class. (C)

In a geopolitical context, most of the Peninsula Arabs see growing Soviet encirclement of the region in Afghanistan, the Horn of Africa, and South Yemen, and failure on the part of the United States to thwart Soviet encroachment. Currently they are juggling the merits of continued strong ties with the West versus preserving Arab unity and moderating role the Gulf has played in Arab affairs. Judging from the agitation developing over the Egyptian-Israeli peace treaty, most probably will opt for Arab unity. (C)

Population:	340,000; 75 percent native
Government:	Traditional monarchy ruled by the Al Khalifa family
Head of State:	Amir Isa ibn Salman Al Khalifa
Religion of Native Population:	60 percent Shia Muslim, 40 percent Sunni Muslim
Literacy Rate:	40 percent
Student Share of Population:	25 percent
Oil Production:	50,000 b/d in 1978
Official Foreign Assets:	$550 million in June 1978
Gross Domestic Product:	$1.7 billion in 1977
Size of Armed Forces:	1,600
National Police Force:	2,700



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Bahrain: Economic and Political Management Growing Harder

Ruled by the Khalifa family for nearly 200 years, the island nation of Bahrain has enjoyed a limited prosperity from its oil wealth and has developed into a regional banking and commercial center. Of special significance to the United States because it allows the small US Middle East Naval Force porting facilities in the Persian Gulf, Bahrain traditionally has been a source of moderation in regional politics. At home, the government is now facing increasing unrest from Bahraini dissidents who, inspired by Iranian developments, are seeking greater political participation and social justice. With oil production on the wane, the Khalifas hope to maintain their grip on government by gradually raising living standards through development of services and light industry and by paying lip service to political modernization. A recent estimate sets the population at 340,000 of which roughly three-quarters are native Bahrainis. (c)

The Government

While making occasional overtures to Bahrainis on issues of constitutional government and social reform, the government remains an oligarchy controlled by the Khalifa family. Family members hold half of the seats on the Council of Ministers and most major government posts; as many as 1,000 Khalifas may be on the public roles. Isa ibn Salman Al Khalifa, the 45-year-old Amir who has ruled since 1961, exercises considerable personal control over public affairs. His major objectives are: (a) maintaining the country as a family preserve, (b) developing a stable economic base, (c) eliminating internal security threats, and (d) promoting cordial ties with Arab neighbors and Western states. (c)

Despite corruption and abuse of their prerogatives, the Khalifas thus far have encountered only moderate resistance from diverse opposition groups. Indeed, the Amirs ruled virtually unchallenged until the early 1950s when demands for political change forced some constitutional concessions. The anticipated hue and cry over Isa's subsequent backsliding on political and social reforms—for example, refusal to permit labor unions, suspension in 1975 of the National Assembly, and failure to restore parliamentary democracy or accept any constitutional limit on the ruler's powers—has been relatively weak. (c)

Internal Dissidence

The primary threat to internal security stems from the religious split within the island: Shia Muslims comprise 60 percent of the indigenous population but are dominated politically and economically by Sunni Muslims, including the ruling family and most of the major merchant families. The laboring class, fishermen, and farmers are mainly Shia. In recent years the Shia have gained some upward mobility, but the two sects have experienced little social intermingling because of exclusionary political practices by the Sunnis and the maintenance of separate judicial, educational, and religious systems by the Shia.(s)

The Shia harbor considerable bitterness over their inferior socioeconomic position. In the past they have been active, if relatively ineffective, in Bahrain's small labor movements and weak leftist dissident organizations. Recent Shia successes in Iran, however, have inspired a sense of pride. Religious leaders have encouraged Shia youth to spread antigovernment slogans. Pro-Khomeini and antimonarchial sentiment apparently is widespread among Bahraini Shia, and additional antigovernment activity is a strong possibility. (s)

Leftist movements, which are predominately Shia, have also been heartened by Iranian developments. Radical dissidents are biding their time in expectation that a leftist government will come to power in Iran, providing them political and perhaps material support. Although the movements have been weakened by persistent suppression by a fairly efficient security service, the government has been unable to prevent the

Bahrain: Government Leaders

Name	Position	Background [1]
Isa ibn Salman Al Khalifa [2]	Amir	
Khalifa ibn Salman Al Khalifa [2]	Prime Minister	Younger brother of Amir
Hamad ibn Isa Al Khalifa [2]	Crown Prince; Defense Minister; Commander in Chief, Bahrain Defense Force	Oldest son of Amir
Habib Qassim	Minister of Commerce and Agriculture	
Yusuf Ahmad al-Shirawi	Minister of Development and Industry	
Abd al-Aziz ibn Muhammad Al Khalifa [2]	Minister of Education	Cousin of Amir
Ibrahim Abd al-Karim	Minister of Finance and Economy	
Muhammad ibn Mubarak Al Khalifa [2]	Minister of Foreign Affairs	Cousin of Amir
Ali Muhammad Fakhru	Minister of Health	
Khalid ibn Abdallah Al Khalifa [2]	Minister of Housing	Cousin of Amir
Tariq Abd al-Rahman al-Muayyid	Minister of Information	
Muhammad ibn Khalifa ibn Hamid Al Khalifa [2]	Minister of the Interior	Cousin of Amir
Abdallah ibn Khalid Al Khalifa [2]	Minister of Justice, Islamic Affairs	Cousin of Amir
Isa ibn Muhammad Al Khalifa [2]	Minister of Labor, Social Affairs	Cousin of Amir
Majid al-Jishi	Minister of Public Works	
Ibrahim Muhammad Hasan Humaydan	Minister of Transportation	
Jawad Salim al-Urayid	Minister of State for Cabinet Affairs	Shia Muslim
Husayn Muhammad al-Baharna	Minister of State and Legal Affairs	Shia Muslim

[1] Assumed to be Sunni Muslim.
[2] Indicates member of Al Khalifa family.

This table is Unclassified.

gradual spread of leftist beliefs among Bahraini youth. While organized leftists number only about 150 to 800, they probably have the sympathy of thousands of Bahrainis. (S NF NC OC)

Shia religious leaders and leftists share common objections to the Khalifa regime but probably disagree over what policies a new government should adopt. Thus far, they have shown little evidence of cooperation; the possibility of future joint efforts against the regime seems to be increasing. The government must soon come to terms with the demands of both the Shias and the leftists for a share of the power. (S)

Economic Modernization

Broad-based economic development to pave the way for a future without oil has been a major government strategy to alleviate political and social unrest. Originally stressing the development of heavy industries such as aluminum processing and ship repairing, the government in more recent years has favored the construction of roads, port facilities, schools, and communication facilities. It is moving forward on the island's first sewage system and on construction of a long-planned electric power plant; housing and health are receiving major shares of current budget expenditures. (C)

Future economic priorities include establishment of services and private light manufacturing industries—areas where Bahrain has a comparative advantage over the rest of the Arabian Peninsula in human resources, location, and a well-developed transportation network. A Saudi-funded causeway to Saudi Arabia is planned, and if built, should stimulate small manufacturing because of anticipated demand from the future Saudi industrial center at Jubayl; the causeway also would expand Bahrain's traditional entrepot and transit trade. (C)

Modernization of the defense sector has a low economic priority; Bahrain has the smallest and most poorly equipped armed forces on the Arabian Peninsula. Defense spending held steady at 4 percent of national output over the 1973-77 period, although outlays increased in absolute terms. Annual deliveries of military equipment (largely funded by Saudi Arabia) hovered around the $1 million mark in the same period. The Bahrainis apparently do not perceive any major external threat; their arms buildup has been aimed at preserving internal security and at placating the military establishment, which regarded its weapons as inferior to those of neighboring countries. (S NF NC)

Public Revenues, Economic Growth, and the Balance of Payments

The government's ability to modernize and diversify its economy was aided by the quadrupling in world oil prices in 1973/74 and the attendant rapid expansion in economic activity throughout the Arabian Peninsula. Although oil production has actually dropped in recent years, Bahrain, which is not a member of OPEC, has seen its oil revenues rise from $75 million in 1973 to almost $500 million in 1977 as a result of higher prices. At the same time, increased demand for Bahraini financial services has led to more than a tripling in nonoil revenues, to $125 million in 1977. (C)

Reflecting the government's greatly expanded revenue base, real GDP has grown at an average annual rate of 11 percent since 1973. All of the growth was generated in the nonoil sector, led by burgeoning banking and insurance services. Banking, in particular, received a shot in the arm when the government decided to license offshore banking units in 1974. The relocation of many banking and other services after the civil war in Lebanon also benefited Bahrain. Public administration (including defense) and manufacturing have also grown rapidly. Small to begin with, agriculture has steadily lost importance, while hydrocarbon production—with oil reserves dwindling—has maintained its share of GDP only because of higher oil prices. (C)

Although rapid economic growth and falling oil production have weakened Bahrain's trade account since 1973, the balance of payments remains strong. Bolstered by sizable inflows of direct investment (particularly in construction) and foreign aid (mostly from various Arab Funds), official reserves have mounted and, at $552 million in mid-1978, represented the equivalent of three months of imports. The external debt also has risen, to an estimated $154 million at yearend 1977, of which $65 million had been disbursed. Nevertheless, Bahrain's debt-service ratio in that year was only 1 percent, leaving lots of room for more borrowing abroad. (C)

Modernization Fallout

While most Bahrainis no doubt are materially better off because of the boom, the modernization drive inevitably has created certain sociopolitical problems. It appears to have widened the traditional income gap between the wealthy Sunnis and the poor Shias, and it has entailed substantial growth in the potentially restive expatriate labor force. At the same time, tighter economic links with Saudi Arabia have increased traditionally strong Saudi leverage over Bahraini policy. (C)

Maldistribution of Wealth

Rapid economic development has exacerbated the traditional strains between the Sunni and Shia communities. All Bahrainis have benefited from better education, health, and housing facilities; per capita incomes have increased considerably, rising by 270 percent since 1973, to $5,000 in 1977. Nonetheless, the political elite, the landowners, and the merchants, who are predominately Sunni, have gained more from the boom than the farmers (who have been neglected) and the laborers (who have seen their wage gains eaten away by double digit inflation). (C)

The Expatriate Problem

Until 1974 Bahrain was the only nation on the Persian Gulf with an excess of skilled local manpower. Since that time the economic boom has increased the need for expatriate workers, who now constitute roughly one-half of the work force. The government is encouraging a shift in recruitment, from India and Pakistan to other Far Eastern countries to prevent one foreign nationality from predominating in the labor force. Indians and Pakistanis currently number 23,000—about 60 percent of foreign workers. Bahrain's 1,500 Palestinians are employed as skilled laborers, accountants, managers, teachers, and civil servants. Although the expatriates maintain a low political profile because they receive some state benefits such as free education and medical care, they are often resented by Bahraini nationals, particularly if they occupy skilled or professional jobs. The government is particularly worried about the dependency of the civil service on foreigners; its policy of Bahrainization instituted several years ago has yet to reduce this dependency. (C)

The Saudi Role

Increased aid flows and growing financial and industrial ties have increased traditional Saudi influence in Bahrain. The Khalifa family is related to the Saudi and Kuwaiti ruling families and tends to follow their line in domestic policies and foreign affairs. Saudi disapproval of Bahrain's parliamentary experiment undoubtedly reinforced Isa's decision to suspend the experiment after liberalization became a rallying point for opposition to his government. (C)

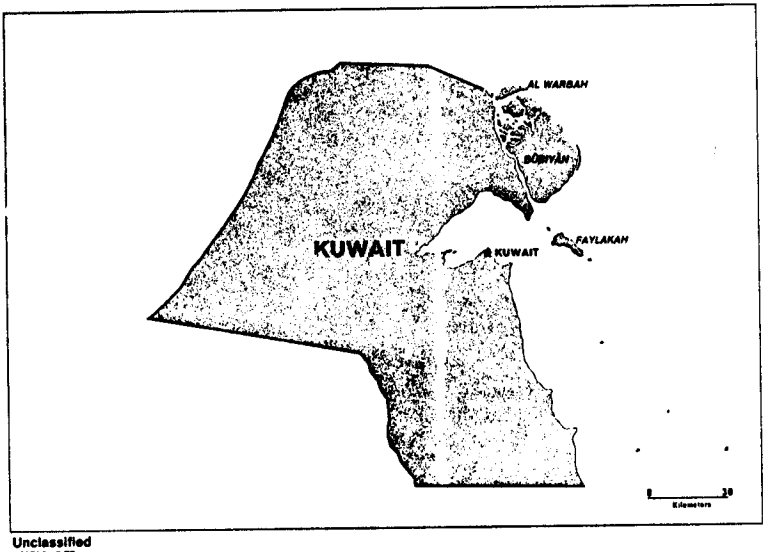
Outlook

Despite submerged social and political tensions, most of the ingredients that triggered revolutionary upheaval in Iran are missing or have already been diffused in Bahrain. The flow of wealth into the country has been less dramatic than in the OPEC countries, because oil production is small and declining. Bahrain also has had a measure of wealth for some time, permitting economic progress at a moderate pace over several decades. A large indigenous work force has made the country less dependent on foreign labor than many of its neighbors. Bahrainis may eventually be phased into jobs occupied by expatriates because of the rising educational level of the population, including women. (C)

The flexibility of the Khalifa family, however, may be the best insurance Bahrain has against political instability. The government realizes that Bahrain will not be able to compete with other countries in developing heavy industry and has focused economic policy on social welfare and light industry. While outlawing labor unions, the government has passed laws regulating working conditions and providing a gradually widening range of social benefits for Bahrainis. (C)

The Amir is bringing the middle class into the government and has even appointed several Shia advisers including two Cabinet ministers. The ruling family is also looking for a means of reinstating a national assembly that would avoid the destabilizing influence of the last assembly while permitting enough sharing of power to spread the blame if general unrest on the Iranian pattern breaks out. (C)

Population:	1.2 million; 47 percent native
Government:	Monarchy ruled by the Sabah family
Head of State:	Amir Jabir al-Ahmad al-Jabir al Sabah
Religion of Native Population:	80 percent Sunni Muslim, 20 percent Shia Muslim
Literacy Rate:	40 percent
Oil Production:	2.1 million b/d in 1978
Official Foreign Assets:	$26.9 billion in June 1978
Gross Domestic Product:	$12.8 billion in FY 1977
Size of Armed Forces:	9,500
National Police Force:	15,200



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Kuwait: Buying Off Upheaval?

Kuwait is the richest, the most politically sophisticated, and the most outward looking of the smaller states in the Arabian Peninsula. In the past decade, the ruling Sabah family has shown some awareness of the need for political modernization by consulting prominent business families and tribal leaders on a broad range of issues. It has been able to soothe most opposition and to maintain a stable and credible government despite the suspension of the National Assembly and frequent crackdowns on the media. On the whole, the Sabah family appears to have a reasonably firm grip on the reins of power, in large part because it provides the Kuwaitis with one of the highest standards of living in the world. (C)

Nevertheless, we expect that pressures from the restless Shia Muslim and expatriate communities will accelerate social and political change in the next several years. In addition, the turmoil of the last several months in Iran has raised the vulnerability of the entire Arabian Peninsula to latent forces for change. Events beyond Kuwait's borders and outside its control, such as an Arab-Israeli peace settlement or conflicts in the Yemens and Lebanon, could create repercussions that the Sabah family would have trouble containing. (C)

Government Type and Style

Titularly a constitutional monarchy since independence from the United Kingdom in 1961, Kuwait is run by the Sabah family oligarchy, which has ruled since 1756. Succession of the head of state—the Amir—is determined by consensus of the senior members of the royal family. Tradition calls for the amirship to alternate between the two branches of the family, and the constitution calls for a National Assembly to approve the selection of a successor. In fact, both requirements are honored in the breach or glossed over. The current Amir, Jabir al-Ahmad al-Sabah, has ruled since January 1978; for more than a decade prior to his accession, Jabir played a major role in Kuwaiti policy as Crown Prince and Prime Minister. (C)

The Amir rules in consultation with trusted advisers, his Cabinet, and the extended Sabah family. The royal family presently holds nine out of 22 Cabinet posts, including all key appointments. Principal tribal leaders, prominent merchant families, religious leaders, and senior military officers traditionally have been consulted on major policy issues. Political parties are prohibited, and political activity among expatriates is not tolerated. (C)

The National Assembly was dissolved in 1976 following leftist lobbying, which the royal family viewed as damaging to foreign policy. Kuwaiti youth educated abroad, who want a greater role in governing the country, were particularly alienated by this move. The ruling oligarchy recently launched public debate on restoration of the Assembly after concluding that the Shah lost his throne at least in part because he suppressed political expression. (C)

The present ruler has been able to maintain solidarity and discipline among the royal family despite the existence of several factions within the two branches. His controversial appointment of his cousin Sad al-Abdallah al-Sabah as Crown Prince and Prime Minister has been accepted by the family, and his appointments of other ministers have been well received. Although corruption within the royal family has caused popular criticism, it is less extensive than elsewhere on the Arabian Peninsula. In any event, the Sabah family currently is reviewing the role of family members in local commercial and financial activities. Word has been passed to wealthy families to limit conspicuous consumption. (C)

Relations With Labor

Organized labor could pose a problem for the government if popular feeling were to develop that workers were being shortchanged and that political influence was being inordinately abused. The trade unions are among the best organized in the area. Representing one-third of the native work force, they have the potential to halt activity in key sectors of the economy.

Kuwait: Government Leaders

Name	Position	Background [1]
Jabir al-Ahmad al-Sabah [2]	Amir	
Sad al-Abdallah al-Sabah [2]	Prime Minister	Distant cousin of Amir
Jabir al-Ali al-Sabah [2]	Deputy Prime Minister and Ministry of Information	Distant cousin of Amir
Sabah al-Ahmad al-Sabah [2]	Deputy Prime Minister and Ministry of Foreign Affairs	Half brother of Amir
Khalid al-Ahmad al-Jabir al-Sabah [2]	Minister for Amiri Diwan Affairs	Half brother of Amir
Abd al-Wahab al-Nafisi	Minister of Commerce and Industry	
Sulayman Zayd al-Khalid	Minister of Communications	
Salim al-Sabah al-Salim al-Sabah [2]	Minister of Defense	Distant cousin of Amir; son of late Amir
Jasim Khalid al-Marzuq	Minister of Education	
Hamad Mubarak al-Ayyar	Minister of Electricity and Water	
Abd al-Rahman Salim al-Atiqi	Minister of Finance	
Dr. Abd al-Rahman al-Awadi	Minister of Health	
Not available	Minister of Housing	
Nawaf al-Ahmad al-Jabir al-Sabah [2]	Minister of Interior	Half brother of Amir
Abdallah al-Mufarraj	Minister of Justice	
Salman al-Duayj al-Sabah [2]	Minister of Legal and Administrative Affairs	Cousin of Amir
Ali al-Khalifa al-Sabah [2]	Minister of Oil	Cousin of Amir
Muhammad al-Adasani	Minister of Planning	
Hamud Yusif al-Nisf	Minister of Public Works	
Yusif Jasim al-Hajji	Minister of Religious Trusts and Islamic Affairs	
Abd al-Aziz Mahmud Bu-Shahri	Minister of Social Affairs and Labor	
Abd al-Aziz Husayn	Minister of State for Cabinet Affairs	

[1] The only Shia Muslim to hold a Cabinet post was Abd al-Muttalib al-Kazimi, Minister of Oil from 1975 to 1978; all others are assumed to be Sunni Muslims.
[2] Designates members of the ruling family. Those in the Cabinet represent different competing branches of the family.

This table is Unclassified.

The 14 unions that comprise the General Federation of Kuwaiti Workers are made up of employees in the oil industry, banking, and nine government ministries. The union leadership tends to be leftist or Communist, while the rank and file is apolitical. Thus far, the government has successfully muzzled political radicalism and diverted union activity toward bread-and-butter issues. (C)

Sharing the Oil Wealth

The moderate level of internal political stress reflects the sharing of the country's oil riches with most citizens, who must be distinguished from the large expatriate population. Already oil rich for more than 25 years, Kuwait received an enormous financial windfall from the 1973/74 oil price hikes. Oil revenues expanded from $2 billion in 1973 to $9 billion in 1977. Kuwait has used these revenues to extend what had previously been one of the most advanced welfare states in the world.

- Employment is guaranteed to all citizens, with the government serving as employer of last resort.
- Housing (often including provision of land and credit) is provided at a fraction of its real cost.
- Food is subsidized.
- Income is tax-free.
- Free public education, medical care, and utilities are provided to all citizens.

The only major shortcoming of Kuwaiti welfarism is the shortage of lower income housing, where construction has not been able to keep up with demand. (C)

While the country's 110,000 native Shias (20 percent of the native population) have shared in the oil wealth, they continue to suffer certain forms of political and social discrimination. As a group they have been immensely successful financially and apparently have as much to lose from civil unrest as do their Sunni brethren. Although Shias—including prosperous business families—recently staged a pro-Khomeini rally and may press for greater political liberalization, they are probably too prosperous to become true revolutionaries. (C)

While Kuwaiti citizens enjoy the benefits of the oil wealth, the foreigners who provide much of the labor and second echelon managerial skills have been less fortunate. Expatriates, who comprise 53 percent of the 1.2 million population and 70 percent of the labor force, are frequently paid less than natives for similar jobs and have the hardest time finding housing. Expatriates are barred from owning businesses or land, forming political parties, or engaging in any type of political activity. Strict naturalization laws deny citizenship to all but a few foreigners. (C)

The exclusion of noncitizens from property ownership and political activity breeds resentment, particularly among the Palestinians. The 300,000 Palestinians make up the largest single foreign group and occupy 25 percent of all civil service jobs, including many key positions. The security forces monitor the Palestinians closely and occasionally deport troublemakers; the threat of losing employment has been the most effective deterrent to political activity. Nevertheless, the sheer weight of Palestinian numbers continues to worry the ruling family. (C)

Managing the Oil Wealth

Profiting from the mistakes of the past, the Kuwaiti Government has husbanded its oil resources in the 1970s—a policy that has helped to mitigate political and social unrest. Oil production has been reduced to stretch out reserves for future generations. Because of the continued rises in oil prices, the decrease in output has not prevented an upward trend in oil revenues since 1975. Nonoil growth has been held to the moderate pace of 8 percent annually since 1973. Recognizing the limited potential for domestic investment, the government invested heavily abroad, even in the pre-1973 period. Kuwaiti foreign investment practices have long been the the most sophisticated of all the Arab oil-producing states. (C)

Government oil policy has demonstrated a clearer view of national self-interest in the 1970s. Oil output has been scaled back from 3 million b/d to 2 million b/d

since 1973. The country's 80 billion barrels of estimated proved and probable reserves are equivalent to 100 years of output at this rate. The government began taking an equity interest in oil output and upped the taxes and royalties paid by the foreign oil companies operating in the country. It acquired complete ownership of the oil sector, which provided 70 percent of GDP in 1975. (C)

Indigenous nonoil development has focused on transportation and communications, social services, and the industrial base. In industry, capital-intensive export sectors using oil and gas as feedstocks and energy sources have been stressed. The government has generally chosen projects that can compete in the international economy and that give reasonable rates of return by normal commercial standards. In contrast to Iran and many other LDCs, Kuwait has avoided white elephant industrial showpieces. (U)

Despite large expenditures for economic diversification, the government has an excess of revenues. Official reserve assets mounted from $3.7 billion at yearend 1973 to $9.6 billion in mid-1978. In addition, the country has $17.3 billion in nonreserve foreign assets, invested mostly in the United States and the United Kingdom. Income from these assets has contributed to a fivefold jump in nonoil revenues in 1974-77, and the government hopes that this income will allow a continuation of economic development as oil output and reserves decline. The government now requires that 10 percent of oil revenues be put into a Future Generations Reserve Fund, which is invested abroad. Income from these investments is retained by the Fund and cannot be drawn for budgetary use for at least 25 years. (S NF)

Foreign Policy

Reflecting its geographic and military vulnerability, Kuwait has based its foreign policy on the enlisting and balancing of political support from neighbors. It seeks to keep the Persian Gulf free of Big Power strife and to maintain friendly relations with all countries. Its strong support of Arab unity is intended to protect it from invasion or a foreign-supported radical revolution. Any split in Arab ranks, particularly on the Palestinian question, is considered a threat to Kuwaiti internal and external security. Although sympathetic to the Palestinian cause, Kuwait might advocate a more conservative line were it not for the large local Palestinian population. (C)

The expansion in Kuwait's oil revenues has enhanced the country's foreign leverage. An aid program—one of the earliest among the OPEC oil producers—is now a major foreign policy tool. Kuwait, the world's fourth largest aid donor, has the highest aid-to-GDP ratio (about 10 percent) of all countries. In 1974-77, total aid disbursements amounted to $2.8 billion and went to 40 different countries. More than three-fourths of its aid has gone to Arab states, particularly the confrontation countries. In a bid to maintain domestic Palestinian support, Kuwait has made contributions to the Palestinian Liberation Organization (PLO) and to the UN fund for refugee camps (UNRWA). (S)

If political and economic measures fail to deter external aggression, Kuwait will have to rely on its meager military forces. Kuwait's armed forces, comprised mainly of local tribesmen, number only 9,500. A national police force, which potentially could provide some backup, numbers 15,200. Because of difficulties in attracting recruits, Kuwait recently instituted conscription. (S NF)

The ruling family realizes that it could not stop a major military invasion; its strategy is to build a defense force strong enough to stall an invader until outside support could be obtained. In 1976-77, a major overhaul and upgrading of the armed forces was begun, with Kuwait going to Western nations and, to a much lesser extent, the USSR to purchase jet fighters, tanks, missiles, and ships. The value of military deliveries has risen from $1.6 million in 1974 to $324 million in 1977. Because of rapid economic growth, defense spending still constitutes only 4 percent of GDP—about the same as in 1973—and is not large enough to provoke any widespread resentment among the affluent population. (S NF NC)

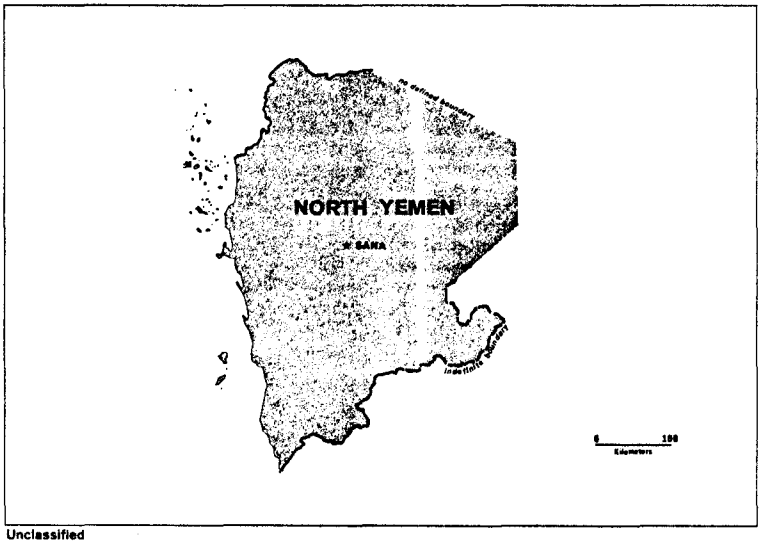
Outlook

With its enormous wealth and population of only 1.2 million, Kuwait should be able to maintain political stability in the next several years. Long experience with the management of wealth and the development of broad social programs make the Sabah family less vulnerable to internal dissidence than several of its neighbors. Nevertheless, pressures from local Shias and Palestinians as well as from educated Kuwaitis from all religious and ethnic groups are likely to bring considerable social and political change in the coming years. (C)

The Kuwaitis may be able to avoid potential Palestinian—and other expatriate—unrest through upgraded social services. Given the local dependency on foreign labor to maintain services and the political flak that would ensue if Kuwait expelled sizable numbers of Palestinians, large-scale deportation is not a viable solution. In particular the ruling family will be under great pressure to adopt a more radical stance in support of the Palestinian cause. (C)

In response to demands for more popular representation, the Sabah family probably will try to reinstitute the National Assembly in a form that will not recreate former problems or jeopardize family rule. In the short term, tokenism may be sufficient to maintain the ruling family in power; in the long term, the Sabah family will be under increasing pressure to share real power with emerging political forces. (C)

Population:	6.3 million; nearly 100 percent native
Government:	Military regime (pro-West)
Head of State:	Lieutenant Colonel Ali Abdallah Salih
Religion of Native Population:	55 percent Sunni-Shafi Muslim, 45 percent Shia-Zaydi Muslim
Literacy Rate:	15 percent
Economy:	Small agricultural economy, heavily supported by worker remittances.
Official Foreign Assets:	$1.35 billion in June 1978
Gross National Product:	$2.5 billion in 1977
Size of Armed Forces:	16,500; tribal forces called as need
National Police Force:	4,300 est.



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North Yemen: Ties With Saudi Arabia A Mixed Blessing (U)

Survival of the current North Yemen government depends on continued political and economic support from Saudi Arabia. The Saudis have spearheaded international efforts to protect Sana against incursions from South Yemen and have pledged almost $1 billion in economic aid in the past five years. Paradoxically they have never trusted North Yemen and have conspired to keep it internally weak. The Saudis nonetheless want to maintain a friendly regime as their first line of defense against the radical government of South Yemen. As for President Ali Abdallah Salih, his attempts to placate the growing number of critics of his performance and to broaden his support may be too late. (S)

North Yemen, officially titled Yemen Arab Republic, occupies a 200,000-square-kilometer chunk of the southern part of the Arabian Peninsula. Agriculture dominates economic activity. Although rainfall is far superior to that of other Peninsula states, output remains hostage to a harsh and erratic climate. In search of higher earnings, large numbers of North Yemenis have migrated to boom sites in the Persian Gulf area, for the most part in Saudi Arabia. The remittances sent home by these workers is equal in amount to more than 50 percent of GDP and cover a large part of North Yemen imports; furthermore, through customs duties levied on imports, they indirectly provide a major share of government revenues. By exposing Yemeni expatriates to new ideas and skills, migration is changing the social values held dear by conservative Arabs. Changes in traditional values and life styles are accelerating at a time when North Yemen is trying to cope with incursions from South Yemen and with continued Saudi ties to the independent-minded northern tribes—a situation that could perpetuate weak governments and defer creation of genuine democratic institutions. (C)

Political Change

The area now making up the Yemen Arab Republic was a political and economic anachronism until the September 1962 revolution, which ended the feudal rule of the Imam and opened the way for outside influences. The group of republicans who overthrew the Imamate started replacing North Yemen's medieval Islamic state with the institutions and practices of a more modern government. Under the tutelage of the Egyptians, who were backing the republicans in the ongoing civil war with Saudi-backed royalist elements, some two dozen ministries and other governmental agencies as well as a number of joint public-private enterprises were created. With the formal end of the civil war in 1970, a constitution was promulgated leading to North Yemen's first national elections and to the creation of a legislative body, the Consultative Council. Although organized political parties have never developed, elements of the council espoused Baathist, Nasirist, and other views. (C)

Never strong to begin with, the influence of the Consultative Council on national policy has been eroded by a succession of ruling Military Command Councils in recent years. In 1974, a four-man Command Council, under the charismatic leadership of Colonel Ibrahim al-Hamdi, seized complete power. The Council attempted to strengthen the central government by emphasizing economic development and modernization. A host of reform committees, cooperatives, emigrant societies, and other institutions that threatened the power of tribal and traditional forces were instituted. The government nevertheless was never able to establish comprehensive control over many areas of the country, particularly the northeast. (S)

Hamdi's reforms were largely forgotten after he was assassinated in October 1977. Under his successor, Colonel Ahmad al-Ghashmi, the government took on a more personal and military cast. This emphasis on the

North Yemen: Government Leaders [1]

Name	Position	Background [2]
Ali Abdallah Salih	President	Zaydi
Muhammad Ahmad al-Junayd	Deputy Prime Minister for Financial and Economic Affairs	Shafi
Abd al-Karim al-Iryani	Minister of Agriculture	Unknown
Husayn Abdallah al-Amri	Minister of Foreign Affairs	Unknown
Yahya Husayn al-Arashi	Minister of Information and Culture	Unknown
Muhammad Hamud Khamis	Minister of Interior	Unknown
Ahmad al-Mihanni	Minister of Public Works and Municipalities	Unknown

[1] The list is incomplete because of a recent Cabinet shuffle.
[2] Friction between the Sunni and Shia sects of Islam is not directly pertinent in the political life of North Yemen. Intense rivalry does exist, however, between the Zaydis (an offshoot of the Shia sect) and the Shafis (a branch of the Sunni sect). Zaydi and Shafi liturgical differences are blurry but economic and social class differences promote political frictions between the dominant (although lesser in number) Zaydis and the Shafi population. Cabinets are generally balanced between the two groups.

military continued after Ghashmi was assassinated by an agent of South Yemen in June 1978. The current president, Lt. Col. Ali Abdallah Salih, lacks a power base outside of the armed forces and is resented by some elements in the armed forces because they suspect that he was responsible for the death of the popular Hamdi. His regime faces the difficult task of convincing the North Yemenis that it can solve the country's many political and economic problems. At the same time, the current government must grapple with a poor security situation caused by subversive activities sponsored by Marxist South Yemen. (S NF)

Sociological Divisions

A religious cleavage among the 6.3 million North Yemenis is a potentially explosive element in the country's internal security picture. The Zaydi community of the Shia sect of the northern, central, and eastern areas of North Yemen have for centuries ruled the Shafi community of the Sunni Muslim sect prevailing in the south and southwest. The differentiation between the two sects is less a matter of religious doctrine than of social and cultural traits. Because they were denied any appreciable role in government, many Shafis turned to commerce—often outside North Yemen—and were exposed to greater outside influences than the more insular Zaydis. (C)

The Shafis are beginning to gain a small degree of political influence. The increasing number of technocrats needed by the government to provide public services and manage the economic development program are found more readily among the Shafis than among the tribal Zaydis. As the economy moves away from the traditional agricultural pursuits of the tribes, the Zaydis seem likely to lose their solidarity. (C)

Military Weakness

The Shafi/Zaydi split weakens the cohesiveness of the military forces. Military units were originally formed along tribal lines. Because recruits are naturally attracted to units containing fellow tribesmen, the tribal orientation of different units has been perpetuated. Military officers are generally Zaydis; they tend to be clannish, badly educated, and poorly trained. Many Shafis have refused to serve under Zaydi superiors. Along with the increasing politicization of the armed forces and widespread corruption among the officer ranks, this sectarianism has led to personnel shortages. (S NF)

While internal dissension accounts for a large part of the poor performance of North Yemenis in recent clashes with South Yemen, the military has also suffered from old and poorly maintained equipment. The armed forces are equipped largely with obsolete Soviet arms and some newer Western equipment. Total deliveries of military equipment in 1973-77 amounted to only $90 million, compared with $197 million for South Yemen. The gap was widened further in 1978. North Yemen devotes only 7.5 percent of its national output to defense spending in contrast to South Yemen's 14.5 percent. Recent inflows of US equipment from the United States and Saudi Arabia financed by Riyadh presumably will help to reduce the military imbalance. (S NF)

Migration: Manpower Drain

Military personnel shortages reflect a general manpower shortage in North Yemen. Ever since the 1973/74 oil price hikes touched off booms in Saudi Arabia and other Gulf states, growing numbers have been migrating to jobs abroad. About 30 percent of the male labor force is now working outside the country. The inadequate supply of domestic labor has become a major constraint on economic development programs and the expansion of private business at home. Agriculture in particular has been affected; the loss of labor has led to abandonment of some farmland and may have contributed to a decrease in output. (C)

Because of the tight labor situation, women are slowly breaking through traditional taboos and trickling into the labor force. The transformation has been most startling in agriculture. In addition to the usual chores of cooking, water carrying, child raising, gathering fodder, and caring for animals, women now participate in traditionally male-dominated activities such as plowing, planting, and harvesting. Female agricultural laborers tend to earn one-half to three-fourths the wages of male counterparts. In some parts of the country women even act as farm managers, make investment decisions, and serve as equal partners in ventures such as home electrification and group well drilling. (C)

Migration: Financing the Economy

The officially reported earnings sent home by North Yemenis working in Saudi Arabia and other countries soared to $1 billion in 1978, or nine times the 1974 figure. This sum is equal in amount to more than 50 percent of gross domestic product (GDP). Undoubtedly additional remittances are sent home that are not registered by the central bank; returning Yemenis also bring cars, trucks, and other consumer items back to North Yemen. These funds have helped double per capita income in the past five years to $350. (C)

Remittances have proved a boon to public finances. Since the increased purchasing power generated by remittances has greatly upped demand for imports, customs duties on these purchases have risen sharply and form by far the greatest share of public revenues (85 percent). At the same time, official reserves have risen steadily, reaching more than $1.4 billion for yearend 1978. The central bank presently pursues a policy of purchasing only dollars with the Yemeni rials it prints. For an LDC poor in natural resources, North Yemen has a remarkably good international credit rating. Private holdings of dollars and other hard currencies— encouraged by a lack of exchange controls—are probably greater than public holdings. (C)

Because of manpower and other constraints, the demand generated by the inflows of foreign funds has only been met in part by domestic output, which has risen about 8 percent annually since 1973. Domestic trade, government services, transportation, and finance have expanded the most rapidly. Financed by their savings from abroad, many returning migrants are opening small businesses to provide carpentry, welding, and mechanical services learned in Saudi Arabia. The demand for public services has been quite strong, since returnees have been exposed to the public amenities provided by the Saudi government. (C)

Even agriculture, which still accounts for 45 percent of GDP has witnessed a considerable expansion in modern cash crops, particularly vegetables, fruits, and chickens; remittances have financed some increase in mechanization, primarily pumps and tractors. Qat—a mildly narcotic plant widely consumed in North Yemen—remains the most important (and most controversial) cash crop. Although most of the increase in food output has been consumed at home, agricultural products such as cotton and coffee, still dependent in large part on rainfed lands, constitute the bulk of exports. Domestic food needs continue to be supplemented by imports; foodstuffs comprise 24 percent of total imports. (C)

Since domestic production and investment have not been able to keep pace with the expanded inflow of remittances, inflation has accelerated. Consumer prices have risen on the order of 25 percent annually in recent years. The government's major method of inflation control is an attempt to expand imports; hence Sana has ended all quotas and prohibitions on luxury imports. Alternatives like reducing bank credit would only cut imports—and of course customs duties. Changing the policy of full and free exchange of foreign currencies would lower the value of the Yemeni rial and slow the accumulation of dollar reserves. (C)

Income Distribution

The rise in worker remittances has gone a long way toward equalizing incomes. Incoming paychecks have gone mostly to rural areas, which have supplied the bulk of the outgoing labor force. Traditional strong family ties have ensured that a large number of people have benefited from the transfers. At the same time, the expansion of North Yemen's modern sector has provided new employment opportunities for those choosing to stay at home. Helped by the positive impact remittances have had on its own resources, the government is now developing programs to provide for the basic need of the desperately poor. (C)

A number of affluent merchants and wealthy landowners, who have survived the political upheavals of recent years, own a large fraction of the country's wealth. Indeed, some merchants are now growing richer by exploiting ongoing supply shortages. The present land tenure system and the tradition of crop sharing also tends to perpetuate income inequalities in rural areas. The government is attempting to tax higher income groups, although not very hard or very successfully so far. (C)

The Saudi Connection

Saudi Arabia remains by far the most powerful external influence on North Yemen. Riyadh follows a two-pronged political stance vis-a-vis Sana. On the one hand, it has been the most important political ally of the North Yemeni government since the early 1960s, has spearheaded international efforts to protect North Yemen against incursions from the south, and has pledged almost $1 billion in economic aid in the past five years. At the same time, the Saudis have also continued their traditional support to the independent-minded tribes in the northern and eastern parts of the country. Saudi leaders view their ties to the tribes as a way of enhancing their leverage in North Yemen and as a hedge against a potentially unfriendly regime that might have leftist colorations. (S NF)

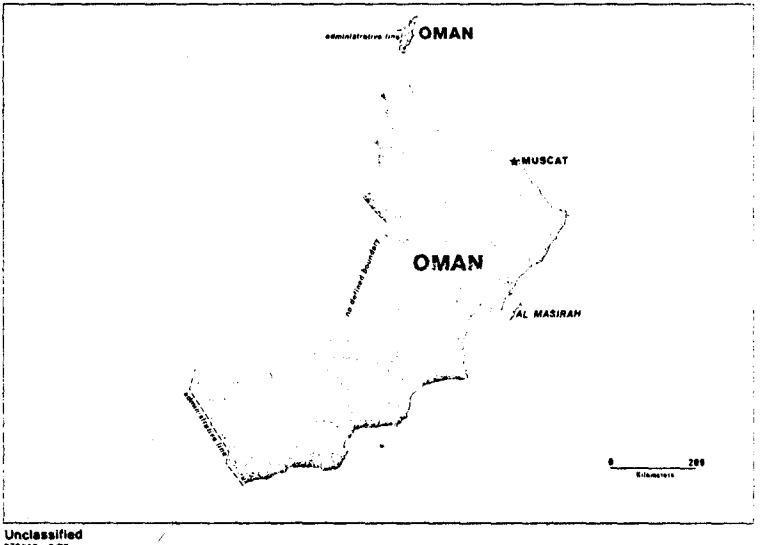
The subsidies paid to the tribes also help guarantee an unrestricted flow of labor into Saudi Arabia, and about one-half million North Yemenis are believed to be working there. The Saudis look on North Yemenis as the best available source of labor; the Yemenis are Arab brothers, speak the same language, have fewer adjustment problems than other workers, and are highly motivated. The Saudis encourage Yemeni workers by freeing them from formal passport, visa, and contract requirements. Hence, in contrast to most foreign workers in Saudi Arabia, Yemenis can quit one job and move to another better paying one. Some North Yemenis are pressing Sana to push Riyadh into giving them additional job benefits such as accident insurance, sick leave, pensions, and better job training. Sana, however, probably will use the labor problem as a tool when bargaining for more Saudi aid. (C)

Outlook

The maintenance of firm support from Saudi Arabia will be crucial to the survival of the current style of government in North Yemen. We believe continued aid is almost guaranteed so long as Saudi Arabia views North Yemen as its first line of defense against the radical government of Aden. As for President Salih, his power base is so fragile as to make his prospects for survival tenuous at best. (C)

The modernization process at work in North Yemen could bring governmental change from within and will certainly bring major changes in social values. The traditional cohesiveness and power of the tribes is being increasingly eroded by emigration. Businessmen are providing the models for young men who once looked to traditional tribal leaders for their examples. The technocrats needed to manage the government and economy are to be found mainly among the less tribal Shafis. Returning workers are demanding better government services at home. Hence, the process of change will likely bring new relationships that will supersede tribal ties and perhaps will even override Zaydi-Shafi religious affiliations. With so many economic and social changes taking place, a succession of weak governments is probably the best North Yemen can hope for. (C)

Population:	700,000; 80 percent native
Government:	Absolute monarchy
Head of State:	Sultan Qabus ibn Said Al Bu Said
Religion of Native Population:	50 percent Ibadhi Muslim, 35 percent Sunni Muslim, 15 percent Shia Muslim
Literacy Rate:	10 percent
Student Share of Population:	7 percent
Oil Production:	315,000 b/d in 1978
Official Foreign Assets:	$410 million in June 1978
Gross National Product:	$2.1 billion in 1977
Size of Armed Forces:	12,200
National Police Force:	2,400



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Oman: Awakening To the 20th Century

In the nine years since he deposed his father, Sultan Qabus has attempted to bring Oman into the 20th century, albeit at a pace that does not threaten his absolute control. He has quelled a civil war initiated against the repressive policies of his father and has begun an extensive oil-financed modernization of the economy and society. Thus far his style of benevolent despotism has evoked no apparent opposition, but his continued failure to institute political modernization, coupled with the fall-off in oil production and reserves, exposes him to possible future unrest. Furthermore, Soviet-backed South Yemen might reactivate the insurgency in Oman's Dhofar Province, especially since the Shah no longer serves as gendarme of the Persian Gulf. Qabus, mindful of Oman's strategic position on the Strait of Hormuz, through which most Persian Gulf oil exports must pass, is seeking commitments from the United States and other Western powers to confront any foreign-inspired challenge. Oman's refusal to back anti-Egyptian measures or even attend the Baghdad summit last month—has exposed Qabus to greater danger from Arab hardliners, who have labeled Sadat's supporters traitors and threatened them with a campaign of terrorism. (S)

Approach to Government

Sultan Qabus ibn Said Al Bu Said has ruled Oman—a 200,000-square kilometer arid country on the southeastern edge of the Arabian Peninsula—since he deposed his father in July 1970. Because his father had held back modern influences, Qabus found himself ruler of one of the world's most benighted and isolated nations. He himself is genuinely concerned about moving Oman from its pre-1970 feudal state into the modern era and has stressed economic diversification, detribalization of society, and replacement of non-Omanis in the government. Qabus has also removed the rigid, puritanical laws applied by his father. However, in no area has he acted percipitately; indeed, like his father, Qabus is often criticized for a lack of energy and procrastination in addressing Oman's problems. (C)

The Sultan's desire to modernize Oman does not extend to political institutions. The 14th member of his family to rule, Qabus governs as an absolute, if benign, monarch. Power is concentrated in his hands—he is the sole source of legislation and the highest judicial power. Oman has no constitution, and the people are practically without a political voice. Unlike the other rulers of the Arabian Peninsula, who have retained elements of Beduin political tradition, Qabus has no *majlis* (council), makes no provision for family or ministerial consensus, and has not established a formal method for petitioning by either his ministers or citizens. Qabus has increased his contacts with the masses and tribal leaders in recent months. Nevertheless the Sultan remains largely inaccessible to all except his closest advisers, who are concentrated in military and police circles. The most influential advisers tend to be British or non-Omani Arabs, some of whom are known for their venality. (S)

Omanis appear relatively content with Qabus despite his shortcomings, in part because they are grateful that he ousted his oppressive father. In time their appreciation could wane, and they may become more critical of his permissive attitude toward corruption, prodigality in spending, inattentiveness to state affairs, and resistance to any suggestions of sharing political power. (C)

Internal Divisions

Oman suffers from a major geographical and sociological split between the North and Dhofar, the southernmost province; both areas, moreover, have internal divisions of their own. Tribes and ethnic groups provide even further societal fragmentation, although the importance of tribal affiliations is slowly weakening. The dominant Ibadis—a splinter sect of Islam—are relatively tolerant of other religious groups, including the small Shia communities. Oman does not appear to be undergoing an Islamic reawakening, although Khomeini's success in Iran undoubtedly will inspire some citizens to seek to correct social injustices in Oman. (C)

Oman:
Government Leaders

Name	Position	Background [1]
Qabus ibn Said Al Bu Said [2]	Sultan, Minister of Defense Minister of Finance	
Said Ahmad al-Shanfari	Minister of Agriculture, Fisheries, Petroleum and Minerals	
Salim Nasir Al Bu Said [2]	Minister of Communications	
Ahmad Abdallah al-Ghazali	Minister of Education	
Muhammad Abdallah al-Harithi	Minister of Electricity and Water	
Dr. Mubarak Khaduri	Minister of Health	
Muhammad al-Zubayr	Minister of Industry and Commerce	
Fahd ibn Mahmud Al Bu Said [2]	Minister of Information and Tourism	Distant cousin of Sultan
Muhammad ibn Ahmad	Minister of Interior	
Hilal ibn Hamad al-Sammar	Minister of Justice	
Khalfan ibn Nasir Wahaybi	Minister of Labor and Social Affairs	
Asim al-Jamali	Minister of Land and Municipality Affairs	
Faysal ibn Ali ibn Faysal Al Bu Said [2]	Minister of National Heritage	Distant cousin of Sultan
Karim Ahmad al-Harami	Minister of Post, Telegraph and Telephone	
Walid ibn Zahir al-Hinai	Minister of Religious Trusts and Islamic Affairs	
Hamad ibn Hamud Al Bu Said [2]	Minister of the Sultan's Affairs	Distant cousin of Sultan
Burayk ibn Hamud al-Ghaffari	Minister without Portfolio	
Fahar ibn Taymur Bu Said [2]	Minister of Youth Affairs	Uncle of Sultan
Qays Abd al-Munim Zawawi	Minister of State for Foreign Affairs	

[1] Assumed to be Ibadi Muslim.
[2] Designates members of the ruling family.

This table is Unclassified.

The Sultan's most immediate concern is that loss of the Shah's support may lead to a renewal of rebellion in Dhofar Province. The Popular Front for the Liberation of Oman (PFLO), a Marxist revolutionary organization backed by South Yemen and the USSR, led an insurgency in Dhofar from the mid-1960s to 1975. The Sultan's reversal of his father's repressive policies plus substantial military assistance from Iran and Jordan weakened the rebels militarily and politically. In 1975, the PFLO insurgents fled to South Yemen, except for a handful of relatively inactive guerrillas remaining in the mountains of Dhofar. The PFLO, estimated to number 800, has been training cadre in South Yemeni camps since 1975 and remains a potential threat to the Muscat regime. (C)

Because of the Dhofar rebellion and a perception of external threat from South Yemen, Oman has developed one of the most effective armed forces of the smaller Gulf states. The military's stature has been bolstered by the Sultan's dependence on it as the mainstay of his regime. Reflecting its importance to

the regime, defense gets 34 percent of GDP, a far greater share than in any other Arabian Peninsula country. Military deliveries—financed mostly by Saudi Arabia and the UAE, and purchased largely in Western Europe—amounted to an estimated $104 million in 1973-77. From the Chief of Staff through the company level, the armed forces are commanded by British officers. (S)

Economic Development

In conjunction with heavy defense outlays, Qabus has undertaken a comprehensive economic modernization program to bolster his regime. Up to 1967, the backwater economy was based almost entirely on subsistence agriculture and fishing. Oil exports started to flow in 1967, greatly boosting foreign exchange receipts and public revenues, but little of the proceeds were spent on economic development. When Qabus seized power, his top priority was construction of the basic framework of a modern economy, especially roads and schools. (U)

Capital expenditures shot up from almost nothing in 1970 to $85 million in 1973 and then escalated to $425 million in 1977 as oil revenues swelled with the increases in world oil prices. Major projects have included a deepwater port, a new airport, and a large desalination plant (another such plant is under construction). The government also has emphasized road construction, increasing the length of paved highways from 10 kilometers in 1970 to more than 1,000 kilometers in 1976. Improvements in education have been just as dramatic; the number of schools rose from three with less than 1,000 students to more than 250 with 70,000 students in the same period. Although development has been concentrated in the capital city area, Dhofar, long the most backward and isolated region, has also received special attention, reflecting the Sultan's efforts to buy peace. (C)

With oil production and reserves declining, Oman feels the need to develop nonoil activities as quickly as possible. In 1974, Qabus set up a Development Council to devise a national economic plan for 1976-80. Reflecting the technical deficiencies of the planning staff and the weak data base, the plan was simple and conservative. Its major objectives are (a) continued expansion of essential services, (b) a reduction in migration to cities through encouragement of farming and fishing, (c) a more even spread in investment regionally, and (d) creation of income-generating projects. Specific projects include development of local copper deposits with the help of $100 million (85 percent of total costs) from Saudi Arabia, a cement plant, and a steel plant. A gas pipeline from the interior to the capital has already been completed. (C)

Although officially stressed, agriculture—which employs 45 percent of the labor force—is unlikely to expand rapidly, and outmigration is likely to continue. Low yields are a perennial problem, and the scarcity of water and arable land allows for only limited development of new land. Oman, in fact, is depleting its underground water and a decade from now the lack of usable water could become a critical problem. Oman possesses rich fish resources, which have been only partially exploited, and foreign companies have been given concessions to fish offshore waters. (U)

Problems of Development

The drive to bring Oman into the modern world and the cost of the Dhofar insurgency on the one hand and Oman's limited absorptive capacity and financial resources on the other have had troublesome economic consequences. Oil revenues, which account for more than 75 percent of public revenues (90 percent excluding grants), rose rapidly in the 1970s, to $1.4 billion in 1977. Nevertheless, public expenditures grew even faster, particularly in 1974-75. The budget and the current account of the balance of payments swung from surplus to deficit in 1972 and have remained there except for 1977, when the government cut defense spending and capital outlays and received substantial grant aid from Saudi Arabia. (C)

To restore balance to the economy, the government has initiated several institutional reforms to control public spending, establish a central bank, and set up a development plan. With the resultant ebb in economic activity in the mid-1970s, some of the pressures on the overheated economy eased. Following a drop in world

food prices, inflation ebbed to 10-15 percent in 1975-77. Even so, Oman registered budget and current account shortfalls again last year, in part because oil production dropped off by 25,000 b/d, to 315,000 b/d, and Saudi budget support declined. To cover some of its debts, Oman borrowed abroad; its external debt reached $550 million in 1978. (S)

Skewed Incomes

Most Omanis have enjoyed economic gains under the rule of Sultan Qabus, especially since 1973. At the same time, a small number of people, including the royal family, the Sultan's closest advisers, and high government officials have become conspicuously wealthy. Some members of the "Muscat Mafia" have become rich by being in the right place at the right time, but more often their wealth stems from use of their positions at the top for personal gain. The average income in rural areas, where 60 percent of the population resides, was estimated at $200 in the mid-1970s. Typical incomes in the modern sector are perhaps 10 times as high, with expatriates earning three times as much as Omanis. For the moment, strains between the classes seem more potential than actual, but unrest could quickly develop, particularly if the economy suffers an extended slump. (C)

Modernization Versus Omanization

The rapid transformation of Oman since 1970 has required a major inflow of foreigners to perform administrative and technical duties. Oman's population, about 700,000, is too small and lacking in skills to carry out government development plans without substantial expatriate assistance. European managers (mostly British) and South Asian laborers and clericals have been brought in to operate new industries; they now make up almost two-thirds of the nonagricultural labor force. Unlike the case of other Arabian Peninsula states, nearly all skilled and manual expatriate laborers are from the Indian subcontinent; Qabus has been reluctant to import large numbers of non-Omani Arabs, and no more than 500 Palestinians work in Oman. The exception is use of Egyptians, Sudanese, and Jordanians in education and the security services. (C)

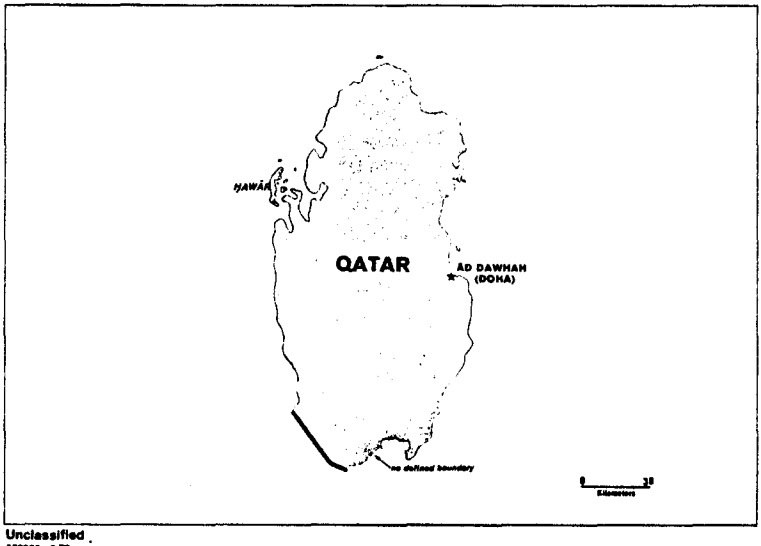
One of the Sultan's major goals is the replacement of expatriate advisers and workers with Omanis. Given the small population base and the unwillingness of Omanis to fill menial positions, the dependence on expatriates will continue. Despite his desire to Omanize the labor force, Qabus himself appears in no real hurry to replace his top political and financial advisers who are British, Libyan, and Saudi. He has not tried to replace key expatriate workers in the government-controlled petroleum industry, realizing that this could cause oil production and government revenues to plummet. (U)

Outlook: Trouble Down the Road

So far, the Sultan's policies and programs have satisfied most Omanis, and his position appears stable in the near term. Nevertheless, problems arising from the autocratic style of rule, the social pressures of modernization, and income disparities could at any time lead to civil unrest. While the rise in oil prices will put off the day of declining oil revenues, Oman must cultivate nonoil revenue sources and, possibly, locate sources of future foreign aid. (C)

The most serious threat to the Omani regime is the possible renewal of the Dhofar rebellion. If the PFLO also sponsors urban terrorism in the north, the Qabus regime would be further threatened. Although experienced and well run, the military would probably need outside assistance to defeat a determined and large-scale insurgency in Dhofar. Qabus believes that South Yemen's dispute with North Yemen militates against South Yemen involvement in Dhofar in the near future and is using this time to strengthen his army and obtain Saudi, US, and other outside backing. (C)

Population:	200,000; 35 percent native
Government:	Monarchy ruled by Al Thani family
Head of State:	Amir Khalifa ibn Hamad Al Thani
Religion of Native Population:	85 percent Sunni Muslim, 15 percent Shia Muslim
Literacy Rate:	25 percent
Student Share of Population:	20 percent
Oil Production:	480,000 b/d in 1978
Official Foreign Assets:	$4.3 billion in June 1978
Gross National Product:	$4.5 billion in 1977
Size of Armed Forces:	5,600
National Police Force:	3,000



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Qatar: A Family Enterprise Challenged by Development

Ruled since the late 19th century by the Thani family, the small, oil-rich nation of Qatar has been relatively calm since the early 1960s when political reforms were instituted to assuage popular grumblings. At the same time, Amir Khalifa's traditional style of rule and Thani family assumptions about their prerogatives stand in stark contrast to the rapid economic development and changes in social values of the past decade. This widening disparity will undoubtedly generate mounting pressures for political change, the more so if the government's strategy of developing heavy industry is perceived as a mistake by the sizable numbers of young Qataris returning home with foreign educations. (C)

Government Institutions

Amir Khalifa ibn Hamad Al Thani has ruled Qatar —a 10,000-square-kilometer peninsula jutting north into the Persian Gulf—since February 1972, when he deposed his cousin Amir Ahmad. The move, which had the support of key members of the Thani family, took place without violence or subsequent signs of political unrest. Khalifa had been Deputy Amir and Prime Minister and was already making major governmental decisions at the time of his takeover. Since becoming Amir, his major objectives have been (a) maintaining family cohesion and support, (b) promoting "Qatarization" of top official positions, (c) retaining the family's grip on Qatar, (d) developing a diversified economy, and (e) improving relations with Arab neighbors and the United States to guard national security. (C)

Khalifa's style of rule reflects the tribal origins of most Qataris and the conservative religious bent of the Amir and the ruling family. The Thanis are Sunni Muslims, whose beliefs are close to those held by Saudi Arabia's strict Wahhabi sect. They originally migrated from Saudi Arabia, which in part explains Riyadh's strong influence over Khalifa. While Qatar has a provisional constitution, a Council of Ministers (dominated by Thanis), and an Advisory Council, Khalifa makes all executive decisions and legislates by decree. The Advisory Council is a consultative body, viewed by Qataris as having little significance. The Amir defers to family consensus on issues such as succession and to custom in many legal matters; popular views are aired mostly through open court for petitioners or through influential intermediaries. (C)

A limited degree of political liberalization was instituted in the early 1960s following demonstrations backed by prominent nonroyal tribal and merchant families. The demonstrators demanded restrictions on royal privilege, an end to public employment of foreigners, improved social welfare, legalization of labor unions, and institution of municipal councils with at least some elected members. In response, the government ended some abuses and instituted social reform measures. Subsequent political opposition has been limited to sporadic grumblings over family extravagances and abuse of privileges. (C)

Family Infighting

The Thanis are one of the largest ruling families in the Arabian Peninsula, with estimates of male members ranging from 300 to 800. While all family members receive special privileges and government stipends, disgruntlement persists among the several branches of the family over official appointments and corruption among the Amir's advisers. Much of the discontent is a result of jealousy and fear of exclusion from the spoils system that pervades Qatari politics. The Amir uses appointments to pacify factions and balance rival interests. His appointment of his son as Crown Prince in 1977 greatly weakened the challenge of the Amir's brother for the position; recent ministerial appointments apparently have further strengthened Khalifa's position. (S NF)

Qatar:
Government Leaders

Name	Position	Background [1]
Kahlifa ibn Hamad Al Thani [2]	Amir and Prime Minister	
Faysal ibn Samt Al Thani [2]	Minister of Agriculture and Industry	Distant cousin of Amir
Nasir ibn Khalid Al Thani [2]	Minister of Commerce and Economy	Distant cousin of Amir
Hamad ibn Khalifa Al Thani [2]	Minister of Defense	Son of Amir
Muhammad ibn Hamad Al Thani [2]	Minister of Education	Brother of Amir
Qasim ibn Muhammad Al Thani [2]	Minister of Electricity and Water Resources	Distant cousin of Amir
Abd al-Aziz ibn Khalifa Al Thani [2]	Minister of Finance and Oil	Son of Amir
Suhaym ibn Hamad Al Thani [2]	Minister of Foreign Affairs	Brother of Amir
Isa Ghanim al-Kuwari	Minister of Information	
Khalid ibn Hamad Al Thani [2]	Minister of Interior	Brother of Amir
Vacant	Minister of Justice	
Ali ibn Ahmad al-Ansari	Minister of Labor and Social Affairs	Shia Muslim
Muhammad ibn Jabr Al Thani [2]	Minister of Municipal Affairs	Cousin of Amir
Khalid Muhammad al-Mani	Minister of Public Health	
Khalid ibn Abdallah al-Atiya	Minister of Public Works	
Abdallah ibn Nasir al-Suwaydi	Minister of Transportation and Communications	
Ahmad ibn Sayf Al Thani [2]	Minister of State for Foreign Affairs	Distant cousin of Amir

[1] Assumed to be Sunni Muslim, unless otherwise indicated.
[2] *Designates members of the ruling family.*

This table is Unclassified.

Economic Development

Recognizing that Qatar's oil reserves will be depleted in several decades, Khalifa is implementing an extensive economic diversification program. His development strategy emphasizes export-oriented, capital-intensive heavy industry. In theory this policy reflects the small size of the domestic market and the scarcity of labor and takes advantage of abundant natural gas as a feedstock and energy source. In practice many of the projects have been poorly selected and are unlikely to be competitive with foreign producers. (C)

Usually the Amir has tried to form joint ventures (at least 70-percent government owned) with foreign partners who provide the production and marketing expertise. Among the potentially sound ventures are construction of a natural gas liquids plant and reconstruction of one destroyed by fire in 1977. Qatar also plans to build a liquefied natural gas facility to make use of the large gas deposits in the recently discovered North West Dome gasfield, a petrochemical plant is being built. Non-energy related projects in operation include a steel mill, a fertilizer plant, and a cement factory. While the government plans to expand the fertilizer plant, recent budget problems and overbuilding elsewhere in the Gulf have led to the indefinite postponement of a planned aluminum smelter. (C)

In addition to roads, port facilities, and power stations, major programs also are under way for the construction of housing, hospitals, and schools. These form part of a comprehensive social welfare program designed

principally for nationals. Medical care is provided without charge to all residents, including expatriates. Education through secondary school is free, and the government offers citizens free land, free utility connections, and interest-free loans to buy houses. (C)

Development of the defense sector has received a low economic priority. Defense outlays represent only 8 percent of government spending and a little over 3 percent of national output. The primary role of Qatar's 6,000-man armed forces is to ensure internal stability and prevent illegal immigration. Like Bahrain, Qatar does not perceive itself to be threatened in a conventional military sense, looking to Saudi Arabia for protection from any external threats. Qatar's armed forces are controlled by the family; we see no indication that they pose a danger to the current regime. Officers are mainly Qataris, Palestinians, and Jordanians; enlisted men are predominately Saudi Beduins. (S NF)

Oil Boom and Problems

The oil sector, which has been completely owned by the government since 1976, still accounts for more than three-fourths of national output, more than 90 percent of public revenues, and almost all export earnings. Total production peaked at 570,000 b/d in 1973 and has run only 480,000 b/d a year since as a result of conservation measures. Budget problems in 1977 and the Iranian disruption in 1978/79 have encouraged somewhat higher output in recent months. Despite the ups and downs, oil export revenues jumped from $0.6 billion in 1973 to $2.3 billion in 1978 because of the strong upward trend in oil prices. (C)

Reflecting the sharp rise in oil revenues, government spending increased by 53 percent annually in 1974-77, reaching about $1.8 billion in 1977. This massive expansion stimulated a sharp rise in private sector activity, especially in construction and trade. As the rise in economic activity outstripped the absorptive capacity of the economy, strong inflationary pressures developed; prices rose 20-25 percent annually in the period. At the same time, budgetary and foreign payments deficits began to develop. (C)

Finally in mid-1977, the government began to curtail the growth in expenditures by delaying payments to contractors, postponing new projects, and freezing or slowing work on some projects already under way. Although too late to prevent a budget deficit in 1977, the measures had an appreciable impact on last year's finances. For 1978, expenditures were down 11 percent while oil revenues were up, leading to a sizable budget surplus. The resulting slowdown in economic activity and the removal of some physical bottlenecks affecting imports reduced inflation to about 10 percent. (C)

The government's action also slowed the sharp dropoff in the current account surplus. With imports, remittances by foreigners working in Qatar, and grant extensions outpacing export increases, the current account surplus had fallen from a record $1.4 billion in 1974 to $700 million in 1977. The current account surplus in 1978 is estimated at $600 million. Foreign assets went up $400 million in the first half of 1978, to $4.3 billion (of which $3.9 billion are official reserves). (S)

An Expatriate Society

The rapid economic expansion of recent years has caused an influx of foreigners to fill managerial, professional, and unskilled labor slots. Qatar has in fact become a country of expatriates, with nationals comprising only 35 percent of the estimated 200,000 population. The Qatari labor force is probably 80 percent foreign, although the government places the proportion at 68 percent. In the public sector, the non-Qatari employees are mainly Arabs from Egypt, Jordan, Syria, Saudi Arabia, and Sudan. In the private sector, Pakistanis, Iranians, Palestinians, Indians, and Yemenis predominate. Palestinians number 20,000 and hold managerial and skilled labor positions. (C)

Although the government provides many social services to the expatriates, it has tried hard to keep them from becoming entrenched. For instance, it has redressed a dominance of Pakistanis by a deliberate policy of taking Oriental labor for contract work; the 20,000 Pakistanis currently in Qatar are regarded as a

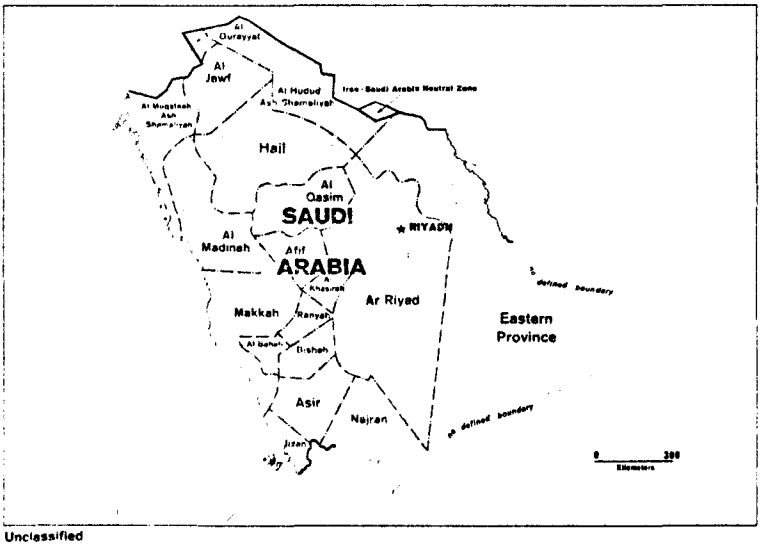
potential threat to internal security. The government has also tried to implement a policy of Qatarization—so far with little success as foreigners continue to hold key jobs. Khalifa's top legal and diplomatic adviser is an Egyptian who has been responsible for formulating plans to modernize the government, secularize the legal system, and limit some of the privileges of the more profligate Thanis. The senior advisers in the Finance and Petroleum Ministries and in industrial planning are Palestinian. The Amir recently, however, appointed Qatari undersecretaries to four ministries. (S NF)

Outlook: Tensions Behind the Facade

Qatar's apparent stability belies major strains in the society. Although the country has almost no organized leftist movements and has large security forces relative to its population, natives and expatriates alike are discontented with the Thani regime and are likely to grow more disaffected. Any increase in discontent, further feuding in the ruling family, restiveness among the expatriate population, or further shocks to the region in the wake of the continuing Iranian upheaval could spark political unrest. Despite Qatar's small Shia population, Ayatollah Khomeini apparently is a charismatic figure, inspiring many Arab and non-Arab Muslims to consider challenges to their own order. (C)

The major source of change in the long term, however, may prove to be foreign-educated middle class Qataris returning to claim a greater role in the direction of their country. These graduates will assume important positions in and outside the government and will press for greater representation. Thus far, the Thanis have grudgingly provided only token sharing of power that will be necessary to assure the long-term survival of the regime. The stakes in this rich little monarchy—per capita GNP is twice that of the United States—are mouth-watering. (C)

Population:	6.1 million; 70 percent native
Government:	Monarchy ruled by Al Saud family
Head of State:	Khalid ibn abd al-Aziz Al Saud
Religion of Native Population:	98 percent Sunni Muslim 2 percent Shia Muslim
Literacy Rate:	20 percent
Student Share of Population:	10 percent
Oil Production:	8.3 million b/d in 1978
Official Foreign Assets:	$59.7 billion in June 1978
Gross Domestic Product:	$57 billion in 1977
Size of Armed Forces:	56,000 of which 17,000 is National Guard



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Saudi Arabia: Balancing Forces for Change

Although the political turmoil in Iran has caused the Saudi leadership to reexamine its position at home and abroad, the forces for change within Saudi Arabia are operating within a markedly different environment. While holding absolute power over political processes, the Saudi royal family enjoys an acceptability rarely found in the Middle East. Concern for religious mores is an integral part of government policy formulation. The fear of social strains from the economic/military modernization drive has led to some tempering in the pace of development over the past three years, and further deceleration now seems in the cards. Income from a strong oil sector has stimulated general economic growth, with considerable spinoff of benefits for most private citizens. (C)

Nevertheless, the Saudis have cause to worry about their vulnerability in the wake of Iranian events. The fall of the Shah leaves one less monarchy in the world, making the Saudi system more conspicuous. The royal family is unprepared for an almost inevitable sharing of political power with an emerging middle class, and it is open to charges of widespread corruption among its members. For the moment, internal stability does not appear to be endangered, but this cannot be guaranteed over the long haul. Possibly the greatest impact of the Iranian revolution is the reexamination of regional strategic interests it has set in motion within the Saudi hierarchy. Here the Saudis see an immediate danger from Soviet expansion that is not being blunted by US countermoves. (C)

System of Government

The Kingdom of Saudi Arabia was formally established in 1932 by King Abd al-Aziz Al Saud and has been ruled by a succession of his sons, the most recent being Khalid who was installed in 1975. King Khalid, age 66, suffers from a serious heart condition that limits his active participation in government. Second in rank is Crown Prince Fahd, who is also First Deputy Prime Minister and who directs day-to-day operation of the government. In Saudi Arabia, the most puritanical and, at least publicly, devout of Sunni Muslim countries, the ruler is regarded as both the leader of the nation and the protector of spiritual values. While no constitution or secular body of law precisely defines the King's power, a Saudi monarch's behavior is circumscribed by (a) a traditional consultative governing process that evolved from Beduin practices and (b) the need to maintain the support of the royal family, which has 4,000 to 5,000 members (including grandsons and daughters of Abd al-Aziz). (U)

Successive rulers have expanded ministerial agencies, some of which are headed by members of the royal family, to handle the widening responsibilities of the central government. A Council of Ministers was formally established in 1953 to advise the King on formulation of general policy and to direct the activities of ministries executing policy. No formal legislature exists; the King issues decrees on major matters, and the ministries issue regulations on lesser matters. A system of religious courts within the Ministry of Justice acts according to the *shuria*, or Muslim canon law, and an extensive system of public bodies administers decrees and regulations within separate jurisdictions. (U)

The Saudis have habitually reached decisions by a consensus of all parties concerned with an issue. In some cases, those consulted may include only a few ranking princes of the inner circle; in others, consultation may encompass a large spectrum of the royal family or segments of Saudi society. A number of foreign-trained technocrats on whom the King and the royal family have become increasingly dependent to administer governmental affairs now have more input into decisionmaking, although they have no independent power base. (S)

The process of decisionmaking by consensus usually ensures the adequate weighing of popular attitudes. Moreover, the ready access of many citizens to the numerous members of the royal family helps funnel popular concerns directly to the center of the power structure. Hence, although no political parties, labor unions, or independent media and special interest groups are allowed, the monarchy has been broadly

Saudi Arabia:
Government Leaders

Name	Position	Background [1]
Khalid ibn Abd al-Aziz Al Saud [2]	King	
Fahd ibn Abd al-Aziz Al Saud [2]	Deputy Prime Minister	Half brother of King
Abdallah ibn Abd al-Aziz Al Saud [2]	2nd Deputy Prime Minister	Half brother of King
Abd al-Rahman ibn Abd al-Aziz Hasan Al al-Shaykh	Minister of Agriculture and Water	
Sulayman Abd al-Aziz al-Sulaym	Minister of Commerce	
Husayn Ibrahim al-Mansur	Minister of Communications	
Sultan ibn Abd al-Aziz Al Saud [2]	Minister of Defense and Aviation	Half brother of King
Abd al-Aziz Abdallah al-Khuwaytir	Minister of Education	
Muhammad Ali Aba al-Khayl	Minister of Finance and National Economy	
Saud ibn Faysal Al Saud [2]	Minister of Foreign Affairs	Nephew of King, son of late King Faysal
Husayn Abd al-Razaq al-Jazairi	Minister of Health	
Hasan ibn Abdallah Al al-Shaykh	Minister of Higher Education	
Ghazi Abd al-Rahman al-Qusaybi	Minister of Industry and Electricity	
Muhammad Abduh Yamani	Minister of Information	
Nayif ibn Abd al-Aziz Al Saud [2]	Minister of Interior	Half brother of King
Ibrahim ibn Muhammad ibn Ibrahim Al al-Shaykh	Minister of Justice	
Ibrahim ibn Abdallah al-Anqari	Minister of Labor and Social Affairs	
Majid ibn Abd[illegible] Al Saud [2]	Minister of Municipal and Rural Affairs	Half brother of King
[illegible]	Minister of Petroleum and Mineral Resources	
[illegible] Wahab Abd al-Wasi	Minister of Pilgrimage and Religious Trusts	
Muhyi al-Din Nazir	Minister of Planning	
[illegible] Darwish Kayyal	Minister of Post, Telephone and Telegraph	
Mitib ibn Abd al-Aziz Al Saud [2]	Minister of Public Works and Housing	Half brother of King
Muhammad Ibrahim Masud	Minister of State	
Muhammad Abd al-Latif al-Mulhim	Minister of State	
Abd al-Aziz ibn Zayd al-Qurayshi	Minister of State	

[1] Assumed to be Sunni Muslim.
[2] Designates member of royal family.

This table is Unclassified.

aware of and responsive to popular wants. This is especially so when a perceived violation of custom, such as the liberalization of women's rights, grates on the sensitivities of the ultraconservatives or the religious establishment. On the whole, Saudis do not appear greatly dissatisfied with the way the kingdom is run and, in fact, take considerable pride in the increased world stature of their country since the early 1970s. (C)

The Military Connection

The military in Saudi Arabia plays a relatively minor political role. Military ambitions apparently are confined to considerations of prestige and attempts to build a credible deterrent force. The policy of upgrading the armed forces was sparked by the Yemeni civil war in the 1960s and reinforced by the Arab-Israeli wars of 1967 and 1973 and the Dhofar rebellion in Oman. More recently, suspicions of Soviet intentions have bolstered the defense psychology. (S)

Military forces are organized under two separate commands, one comprising the army, air force, and navy headed by Prince Sultan, the Minister of Defense and Aviation, and the other the National Guard headed by Prince Abdallah. A number of royal princes occupy key positions and staff jobs in the armed forces. Although pay scales and fringe benefits for the military are high, opportunities in the civilian economy have become so attractive that the government has considerable difficulty keeping units up to strength. The armed forces, including the National Guard, have a paper strength of 90,000 men, but an estimated actual strength of 56,000. The primary mission of the National Guard is to provide internal security and protect the royal family. The National Guard is viewed by the royal family as a protection against any potential coup by the army. Recruits for the Guard come exclusively from Beduin tribes who are staunchly loyal to the royal family and who are courted through subsidies. (S)

Foreign Influence

The composition of the population is an educated guess, although since mid-1978 a campaign has been under way to register all aliens. Most sources set the number of foreigners at some 2 million out of a total population of 6 million. Foreigners supply about 1 million workers to the labor force and native Saudis, a like number. Government concern over the large foreign presence centers on the threat to traditional values. Aside from whatever subtle influence they may be having on Saudi customs, however, foreigners have created no appreciable political problems. In part, this is due to the threat of immediate deportation. The few instances of riots at construction camps over living conditions or inequity in pay scales have been directed at employers rather than the government. Most guest workers come to the kingdom to make as much money as possible; they tend to return home quickly and do not become caught up in internal political developments. (C)

Yemenis, who are treated as second-class Saudis, account for roughly half of the 2 million foreigners. They come predominantly from North Yemen and are allowed access to Saudi Arabia without visas; unlike most other foreign nationals their presence is not tied to a labor contract with a specific employer. Although they have not been politically troublesome, their sheer numbers are of concern to the government. Other Arabs, mainly Egyptians, Palestinians, and Jordanians, make up a quarter of the foreign population and occupy many professional posts in teaching, the civil service, and middle-level management. The remainder comes largely from Asia, particularly Pakistan and South Korea. Americans and West Europeans number only about 50,000. (S)

Resident Palestinians, who number about 125,000, cause more anxiety than other groups. In recent years, the government has stopped granting them citizenship and has tightened visa and residence regulations to restrict a further influx. The government is sensitive to the prospect that Palestinians may not want to leave the country unless they can return to a homeland. (S)

Saudi Arabia has a relatively homogeneous native population, common language, and singularly conservative Sunni religion. One notable exception is the 125,000-strong Shia community in the Eastern Province, roughly one-quarter of that area's population. Prior to the discovery of oil, Shias occupied an inferior economic and social position, often working as manual

laborers for Sunni farmers or businessmen. During the past decade, Shias have made important economic advances in the oil sector as well as in government and private business circles. Various forms of discrimination continue, such as restrictions on Shia employment in the armed forces, police, and certain other occupations. Recent soundings in the Shia community have convinced many observers that the Shia economic stake now is sufficient to keep them working within the system. (S)

The Learning Experience

The large foreign presence is primarily a legacy of the rapid modernization drive intended to propel Saudi Arabia beyond LDC status. This drive was intensified in the wake of the 1973/74 quadrupling of OPEC oil prices. With 27 percent of proven free world oil reserves, Saudi Arabia enjoyed oil revenues of $36 billion in 1978. Although funds pose no problem, great voids exist in administrative capabilities, technology, and manpower. Other barriers to a smooth development process include insufficient housing for the influx of foreigners and poorly developed transportation networks. (U)

Initial efforts to accelerate development came with the introduction of the First Development Plan (FY 1971-75),* which saw planned outlays of $10 billion mushroom into actual spending of $19 billion. This plan, which consisted of vague growth objectives to be achieved through public spending, took little notice of the social pressures that would arise. The Second Plan (FY 1976-80) envisioned the spending of $142 billion and called for improvement in basic transportation, communication, and distribution networks. To curb demand for foreign labor, it stressed the expansion of capital-intensive heavy industry and the education of local manpower. Improvements in social benefits to soften widening gaps in income distribution were emphasized. (C)

* The Saudi fiscal year is based on the lunar Hijri year and averages about 11 days less than the Western calendar year. Fiscal 1979 began on 6 June 1978 and will end on 25 May 1979.

The pace of the development effort was slowed as early as 1976 when officials began to recognize the various problems of absorbing imported goods and workers. Another hard lesson occurred in 1978 when haphazard, uncoordinated budget procedures necessitated reductions in ministry funding requests, slowed implementation of some projects, and led to drawdowns of foreign financial assets. (C)

A further slowdown in the tempo of growth seems likely under the Third Plan (FY 1981-85). The Plan reportedly will emphasize manufacturing, presumably for import substitution, and greater participation by native Saudis in industrial development. The preservation of traditional social values will rank even higher among the criteria for approval of new projects. The growing concern of conservatives in the Saudi hierarchy suggests that a ceiling will be placed on oil production, probably less than 12 million b/d in the mid-1980s compared with early 1979 output of close to 10 million b/d and previous talk of more than 15 million b/d in the mid-1980s. (C)

Saudi disenchantment with the development process is evident in other respects. The Saudis long have suspected, and now seemingly have confirmed, many instances of gross overcharges in contracts. Under various guises, previously negotiated contracts have recently been called in for renegotiation, leading to a claimed 30-percent saving over original costs. Cost-cutting to eliminate padding has begun to take on a crusade-like fervor in responsible agencies, which is likely to foster development more closely attuned to real absorptive capacity than to the ability to spend oil revenues. (C)

On balance, issues of social concern and fair dealing are evolving as the principal determinants of the pace of development. The Saudi financial margin provides great flexibility. Surpluses generated by oil revenues pushed foreign official asset holdings from $4.7 billion at yearend 1973 to roughly $60 billion at yearend 1978, more than either West Germany or Japan. Earnings on foreign assets alone cover 20 percent of the country's import bill. While balance-of-payments surpluses have declined in the last two years, this trend is likely to be reversed, given the upward spiral in world oil prices. (C)

Uses of Oil Wealth

Government spending, which rocketed in five years from $2.7 billion to almost $33 billion in FY 1978, has provided the drive behind economic growth. The oil sector, despite being the mainstay of the economy, was financed out of company earnings until about two years ago, when sizable investment for a gas-gathering system required supplemental government funding. (C)

About one-fourth of the budget in the past five years has been allocated for military puchases, including hardware, land and naval bases, and communication and command centers—all predominantly from the United States. Emphasis is being placed on quality and technical sophistication, resulting in acquisition of advanced equipment such as the F-15 fighter aircraft. As of late 1978, US military contracts amounted to $19 billion. Military construction contracts accounted for $11 billion and hardware contracts for $8 billion. About $3 billion of each has been completed or delivered. (C)

Another one-fourth of the budget has gone into economic development projects. Progress has been particularly notable in port expansion and construction, which has helped eliminate import bottlenecks. Most of the industrial plants to be located in Jubayl on the Persian Gulf coast and Yanbu on the Red Sea are still in the planning and preparation stage. Aside from work on supporting services at these sites, the only major facilities currently under construction are a $13 billion gas-gathering system and some cross-country gas pipelines, which are running several years behind schedule. Construction of a steel plant at Jubayl may begin this year. (C)

The rest of the budget allotments has been for current items such as salaries, transfers, subsidies, and foreign aid—the only areas for which spending has consistently exceeded allocations. Foreign economic aid disbursements averaged more than $2 billion annually in 1975-77 and fell off in 1978. Most of the official development assistance has been provided in the form of bilateral grants and loans on concessionary terms mostly to Arab countries, especially the confrontation states. The government has made greater efforts to share its oil wealth with native Saudis. Low income families are now supported by social security payments, food subsidies, and rent controls. Any Saudi citizen with initiative has access to an impressive offering of low-cost credit to finance business ventures, and any citizen can borrow up to $90,000 interest-free for 20 years to build his private home. Education and health care have also benefited from sizable public outlays. (C)

In what until recently was practically a one-product economy, the expansion in public spending has stimulated remarkable growth in nonoil sectors. Real growth in the government sector has averaged 16 percent annually since 1973 and in the private sector more than 12 percent. Private Saudi business ventures so far have been concentrated in commerce and construction with little activity in manufacturing. (C)

Comparisons With Iran

The social upheaval in Iran has produced a national introspection that contemplates the possibility of a similar fate for Saudi Arabia. Although Saudi Arabia's modernization drive has already been modified by awareness of the economic dislocation brought about by inflation and of the threat to social order posed by a large expatriate community, the Iranian revolution may give impetus to a broader transformation. (S)

The Saudi royal family is probably most vulnerable on the issue of corruption surrounding foreign contracts. Recent reports allege growing popular resentment of these practices. Members of the royal family are commonly known to have made fortunes through their patronage of huge foreign construction contracts. Criticism of the blatant rakeoffs produced by these practices led to token measures one year ago to curtail influence peddling. Agent fees were legally limited to 5 percent of contract values, and agents for military sales were banned altogether. Nonetheless, foreigners seeking nonmilitary government contracts still must work by law through a Saudi agent, which serves effectively to institutionalize sizable commissions for a privileged minority. (C)

In other respects, the Saudi royal family seems less vulnerable than was the Shah. The royal hierarchy has maintained close relations with the religious community. Saudi culture provides an outlet for citizen complaints without a voting franchise. Although income distribution is undoubtedly skewed heavily in favor of a small minority, most Saudis have reaped tangible benefits from the economic boom. Defense spending has not been at the expense of essential economic programs as was perceived in Iran. Indeed, because of their large oil revenues and small population, the Saudis can afford economic mistakes that might have fatal consequences for less well-endowed countries. (C)

Outlook

Social stability, for the short term at least, would seem probable. On the surface, the royal family seems firmly in control, the population is placated reasonably well economically, and the in-country foreigners pose no instrumental threat. (S)

Nevertheless, several possible sources of tension exist and may gather strength over the long run. Fears of the future have been expressed by high-ranking Saudis: (a) Petroleum Minister Yamani has predicted major social and political change by the mid-1980s; (b) Foreign Minister Prince Saud has, in effect, said that the monarchy could not survive a Saudi military reversal in the recent Yemeni conflict; and (c) several members of the royal family have criticized Crown Prince Fahd's leadership as vacillating. Another indicator of future unrest is an upsurge of arms smuggling into the country. (SNF No. 00.)

Any eventual challenge to royal authority is likely to come from the class of civil servants, businessmen, engineers, military personnel, and skilled workers. As development proceeds, educated Saudis will likely seek a larger role in political life. In particular, the increasing sophistication of the economy and the stirrings of socioeconomic change will almost certainly add to the political strength of Western-trained technocrats who are more disposed to social reform than most members of the ruling family. (S)

The orderly resolution of these tensions will be difficult because of the lack of strong and effective leadership in Saudi Arabia's Government and royal family—a growing problem since the death of King Faysal in 1975. Crown Prince Fahd lacks the authority to make decisions, particularly on difficult issues where no consensus of high government officials and royal princes exists. In addition, Fahd seems to lack a toughness of mind and spirit. He tends to tell people what they want to hear rather than what is really on his mind. (S)

The lack of effective leadership has caused the feuds and rivalries within the royal family to intensify in the past few years. Intrafamily differences exist on several matters of policy, but the most politically consequential rivalries are those that relate to succession. It is likely that Prince Abdallah will follow Fahd as Crown Prince. There is, however, serious disagreement over the next line after Abdallah. Fahd's full brother Sultan is favored by some, and his half brother Mish'al by others. (S)

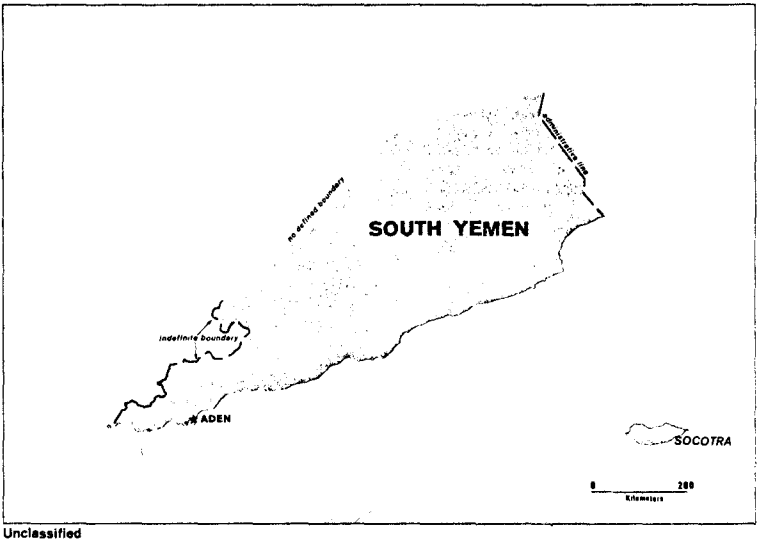
The royal family is also divided over the pace of modernization. Crown Prince Fahd is identified with progressive development plans. Fahd recognizes that "modernization without Westernization" is perhaps a futile aspiration, but he hopes to keep the inevitable change under control. King Khalid, however, is associated with a more fundamentalist grouping, as is Prince Abdallah and even some of Fahd's full brothers. These conservatives resist any liberalization of the social order while not being opposed to economic development per se. (S NF)

Differences also exist on how to cope with the changed geopolitical situation in the region. Saudi actions are heavily colored by the conviction that the USSR is engaged in a systematic effort to encircle Saudi Arabia and the Persian Gulf. [redacted] Saudi leaders have [redacted] of Soviet [redacted] Soviet [redacted] of Soviet intentions. While most Saudi leaders [redacted]

Soviets were directly involved in the Shah's downfall, they all believe events in Iran have drastically altered power arrangements in the region and have made the threat of Soviet encirclement more immediate. They perceive that the United States has ignored two years of Saudi warnings and does not appreciate the urgency of the situation or, alternatively, lacks the will to defend its interests in the region. These concerns have contributed to differing views within the royal family on whether to reestablish some type of formal relations with the USSR. (S)

Currently, the Saudis are reappraising their relations with the United States and Arab countries. In recent months they have distanced themselves from Egypt and the United States on the Middle East peace process and aligned more closely with the majority of Arab states who argue that the Camp David accords are not an adequate framework for a comprehensive peace. A rapprochement with Iraq appears to be under way. The decline of US credibility among Saudi leaders already may have weakened the political power of those senior princes—particularly Crown Prince Fahd—most closely associated with an unquestioning pro-US position. If they decide in coming months that Washington cannot be relied on for protection, they may move toward a more nonaligned position. As unpalatable as it would be, the Saudis might also decide to reach an accommodation with the USSR as a way to buy time to slow the perceived Soviet advance in the region. (S)

Population:	1,700,000; nearly 100 percent native
Government:	Civilian marxist
Head of State:	President Abd al-Fatah Ismail
Religion of Native Population:	95 percent Sunni-Shafi Muslim, 5 percent Shia-Zaydi Muslim
Literacy Rate:	10 percent
Student Share of Population:	15 percent
Economy:	Subsistence agriculture; cottage industry
Official Foreign Assets:	$150 million in June 1978
Gross National Product:	$550 million in 1977
Size of Armed Forces:	21,800
National Police Force:	10,000 est.
Militia:	10,000 est.



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South Yemen: Thorn in the Arabian Peninsula's Side

Since South Yemen became independent in 1967, leftist regimes have forced major social and economic changes that have largely isolated the country from its neighbors on the Arabian Peninsula. The radical leaders have wiped out entire classes, pacified the country through bloody campaigns, and replaced traditional Islamic teachings with secular education. For the past nine months, the government has been controlled by a committed Marxist ideologue, Abd al-Fatah Ismail, who favors close cooperation with the Soviet Union. Previously, much of the internal political life of the state had been dominated by a contest for influence between Ismail and the late President Ali, generally regarded as a more pragmatic leftist than Ismail. (C)

On both the domestic and international scene, South Yemen's policies have alienated its Arab neighbors. Aden has aligned itself on the side of revolutionary movements throughout the area, provided support to groups involved in international terrorism, and recently engaged in active hostilities with North Yemen—an ally of Saudi Arabia. Saudi efforts to wean South Yemen away from close dependence on the USSR by promising economic aid have failed, and future levels of financial support from the conservative Gulf states are open to question. Without sizable foreign assistance, economic prospects for South Yemen are bleak. Aden lacks natural resources and has insufficient technical and managerial skills to support economic development on its own. (C)

Political Perspectives

For much of their Islamic history, the inhabitants of Yemen (Aden) were governed by the Imams of northern Yemen who ruled from Sana for 800 years. Largely Sunni Muslims of the Shafi branch, the southerners resisted allegiance to the Imams, who were of the Shia branch of Islam; control of the many small tribal states and sultanates in the south was never very firm. The modern history of South Yemen began with the seizure of Aden in 1839 by Great Britain as an outpost to protect trade routes to India. By the 1930s all of the sultanates had become British protectorates, but in the February 1959 treaty, the British pledged to prepare Aden colony and the protectorates for full independence. (U)

Efforts to pave the way for independence in South Yemen were complicated by the rising tide of Arab nationalism. Opposition to the British developed into open terrorism between two competing nationalist groups. The National Liberation Front (NLF) eventually won and led the country to independence in November 1967. In the next few years, increasingly radical wings of the NLF consolidated their influence and in mid-1971 leadership was assumed by Ismail, who was Marxist Secretary General of the National Front, and President Salim Rubayya Ali. (U)

Buttressed by their socialist indoctrination, the radical leaders moved to eradicate whole classes, subjected tribal groups to party and central government control, pacified the country in bloody campaigns, and trumpeted the role of women and secular education. They justified the ruthlessness of many measures in terms of revolutionary goals. Nationalizations and political repression induced several hundred thousand to leave the country, with many resettling in North Yemen. Still others left to work in neighboring oil-rich states. Many of those seeking refuge abroad were entrepreneurs, skilled workers, and professionals. (U)

Consolidation of Power

In early 1978, a showdown between Ismail and Ali—envious of each other's prerogatives—began to build. The assassination on 24 June of North Yemeni President Ahmad al-Ghashmi set in motion a series of events culminating in Ali's death and the complete takeover of the South by Ismail and his supporters. Ismail attempted to place the blame on Ali for the death of President Ghashmi from a bomb carried by a South Yemeni envoy, although the most logical explanation would assign the responsibility to Ismail himself. In subsequent fighting between supporting factions, Ismail prevailed and Ali and two of his

South Yemen: Government Leaders [1]

Name	Position
Abd al-Fatah Ismail	Chmn., Presidium, Supreme People's Council
Ali Nasir Muhammad al-Hasani	Dep. Chmn., Presidium, Supreme People's Council
Fadl Muhsin Abdallah	Sec., Presidium, Supreme People's Council
Sultan Muhammad al-Dawsh	Mbr., Presidium, Supreme People's Council
[illegible] al-Akbari	Mbr., Presidium, Supreme People's Council
Ardan Ali Said	Mbr., Presidium, Supreme People's Council
Said Salih Salim	Mbr., Presidium, Supreme People's Council
Mahmud Said al-Madhi	Mbr., Presidium, Supreme People's Council
Abdallah Ahmad al-Ghanim	Mbr., Presidium, Supreme People's Council
Faris Salim Ahmad	Mbr., Presidium, Supreme People's Council
Ali Ahmad Nasir Salami	Mbr., Presidium, Supreme People's Council
Ali Nasir Muhammad al-Hasani	Chmn., Council of Ministers
Muhammad Sulayman al-Nasir	Minister of Agriculture and Agrarian Reform
Mahmud Abdallah Rashid Ushaysh	Minister of Communications
Mahmud Najashi	Minister of Culture and Tourism
Ali Ahmad Nasir al-Bishi	Minister of Defense
Said Abd al-Khir al-Nuban	Minister of Education
Ali Nasir Muhammad al-Hasani	Minister of Finance
Muhammad Salim Akush	Minister of Fish Resources
Muhammad Salih Yafai	Minister of Foreign Affairs
Dr. Abdallah Ahmad Bukayr	Minister of Health
Abd al-Ghani Abd al-Qadir	Minister of Industry
Rashid Muhammad Thabit	Minister of Information
Haydar Abu Bakr al-Attas	Minister of Installations
Salih Muslih al-Qasim	Minister of Interior
Khalid Fadl Mansur	Minister of Justice and Religious Trusts
Nasr Nasr Ali	Minister of Labor and Civil Service
Abd al-Aziz Abd al-Wali al-Nashir	Minister of Planning
Muhammad Said Abdallah Mushin al-Sharjabi	Minister of State Security
Ahmad Ubayd al-Fadli	Minister of Trade and Supply
Ali Asad Muthana	Minister of State for Cabinet Affairs

[1] Most of the population adheres to the Shafi branch of Sunni Islam. Religious considerations have historically played an important part in social life of the country, but position in the current government and Cabinet is a function of adherence to the strong Marxist ideology, which overshadows religious considerations.

This table is Unclassified.

colleagues were executed; other Ali supporters were purged. (S)

Ismail is of North Yemen origin and enjoys little if any support from traditional southern tribal leaders. Instead he relies on fellow northerners or detribalized Adenis to back his rule. Ismail's strength is concentrated in the Marxist-Leninist party apparatus that he helped create. The party's organs, which have a pervasive influence throughout South Yemen, are designed to help the government carry out the mandate of the revolutionary leadership. This apparatus of ubiquitous committees and "people's institutions" in every aspect of national life has been remarkably effective in controlling the highly fragmented and backward population of 1.7 million. Pockets of opposition to Ismail by tribal leaders, whose influence is still strong in rural areas, and by supporters of Ali are not regarded as serious threats. (S NF)

Role of the Military

South Yemen's small but effective armed forces have more than doubled in the past decade. The army has considerable combat experience and has given a good account of itself during several brief clashes with North Yemen and Saudi Arabia. It also has been successful in countering hit-and-run raids launched by exile groups. Two paramilitary forces—the People's Militia and the Public Security Force—supplement and counterbalance the army. The militia, thought to be under Ismail's control, is responsible for security in Aden and border areas lacking regular army units. Although the militia could be an important source of reinforcement for the army, relations between the two are poor. The militia was bloodied when skirmishes broke out with the army in 1976, but it apparently provided most of the muscle behind Ismail's successful coup in June 1978. The Public Security Force is dispersed in small posts throughout the country to maintain internal stability. (S NF)

Hoping to expand their influence in the region and acquire a base of operations to support their Indian Ocean fleet, the Soviets have provided practically all of South Yemen's military hardware—with deliveries estimated at almost $200 million in 1973-77. Soviet deliveries in 1978 soared to more than $130 million and included several advanced weapon systems. An estimated 500 Soviet military advisers are on hand, mainly in support of air and air defense forces. Prior to June 1978 some 300 to 400 Cuban advisers were stationed in Aden, but following the coup their numbers swelled to perhaps 1,000. The Cuban presence appears to have dropped back to 500 military advisers and a few hundred civilian specialists in recent months. (S NF)

Foreign Policy

South Yemen regards itself as a member of the international socialist camp and is committed to a policy of supporting revolutionary movements, participating in the Arab struggle with Israel, and opposing what it has labeled as reactionary or imperialistic governments. The lack of subtlety in these policies does not make for close ties with other Arab countries. Even the more radical countries with ties to Aden hold certain reservations. Although Libya is Aden's strongest Arab ally, the Qadhafi regime probably looks askance at the absence of any visible Islamic influence in South Yemen's domestic affairs. Relations with Iraq are cool because of differences over the Horn of Africa and Aden's refusal to allow Iraqi-style Baathists to engage actively in Yemeni politics. The Persian Gulf countries usually follow Saudi Arabia's lead in opposing South Yemen, while Syria and Egypt share Saudi suspicions of Soviet influence. (S)

Regionally, South Yemen has been a destabilizing force. It was the main supporter of insurgents in the Dhofar region of Oman in the late 1960s, and its aid enabled the rebels to challenge government control of the area for some years. Although the Omanis had reestablished their authority with assistance from Iran, Jordan, and Saudi Arabia by the mid-1970s, they fear that the recent departure of Iranian troops will encourage Ismail to increase support of the insurgents. Relations between the two Yemens have never been good, and they deteriorated further when Saudi Arabia and the United States recognized the Sana government in 1970. War broke out in 1972, and under a subsequent cease-fire the Arab League tried to negotiate unification of the countries in vain. After a long period of border skirmishes, South Yemen, hoping to overthrow the Sana government, mounted a large

military incursion into North Yemen in early 1979. This conflict has died down, at least for the moment. (S NF)

Concerned over the extension of Soviet influence in the Peninsula, Saudi Arabia has tried several approaches to induce moderation in Aden's policies. For a time, Riyadh aided refugee communities in Saudi Arabia and North Yemen in active, if ineffectual, military operations against the South. Subsequently, the Saudis switched to promises of economic support; diplomatic relations were established for the first time in early 1977, and the then-President Ali agreed to curtail Communist influence in South Yemen in return for Saudi aid. By yearend, aid flows had been halted as Aden was perceived to have gone back on its promises and as Saudi disenchantment rose because of increased South Yemeni support for Ethiopia. Ismail's successful coup was seen by Saudi leaders as proof of Soviet efforts to encircle the peninsula, and the Saudis subsequently reverted to their traditional confrontational stance. (S NF)

Austere Economic Base

Prior to independence in 1967, a thriving modern economy had been built in the immediate neighborhood of Aden's harbor. The city's prosperity was based on an oil refinery, bunker and ship services, trading activities generated by the free port, and provision of services to British military personnel. Outside Aden, the economy depended on subsistence agriculture, fishing, and smuggling; basic transportation and communications networks were primitive. Independence dealt the economy a severe blow, coinciding as it did with the closure of the Suez Canal and the withdrawal of British troops. The British exodus damped demand for local services and left the economy around Aden with about 30 percent less income, extremely low investment rates, and roughly 20,000 unemployed (one-quarter of the urban labor force). Abrupt cessation of British budgetary support reduced government revenue by more than half and limited the new regime's ability to generate new economic activity. (C)

The leftist government invoked extreme austerity measures and embarked on a socialist-oriented development program. Economic reforms were initiated with the nationalization of foreign properties in 1969, which brought the bulk of the modern service sector around Aden (banking, insurance, shipping, trading) under government control. While some private enterprise was permitted—mainly in trade, handicrafts, and petty manufacturing—it was relegated to a subsidiary role. Two agrarian reform laws abolished sharecropping and absentee land ownership and limited individual land holdings to small parcels. Simultaneously, new production cooperatives and state farms were created. Women were emancipated and encouraged to work in the nonagricultural labor force, in part to replace citizens who were leaving the country. The leveling of differences in income became a key objective. (C)

In pursuing its economic diversification and modernization, South Yemen faces formidable constraints, the most important being a lack of natural resources, a shortage of foreign exchange, and insufficient technical and managerial skills. A harsh, arid climate severely limits the area available for cultivation, and the narrow domestic market and the paucity of raw material resources limit the scope for industrial development. These problems are compounded by the rugged topography, which creates severe difficulties for internal communications and increases domestic transport costs. (C)

To revive the depressed economy, the government has been relying primarily on public spending. Through successive development plans, public investments were increased from $35 million in 1973 to an estimated $165 million in 1977, or from 12 percent to 30 percent of GNP. More than half of public investment has gone to commodity-producing sectors, with agriculture and fishing receiving 37 percent, industry 13 percent, and mineral exploration 7 percent. About one-fourth has been invested in transportation and communications, the remainder going into social services. (C)

Sustaining this increase in public spending has required a major effort in mobilizing financial resources. New taxes have been introduced and tax collections improved; salaries of government workers were reduced twice. Despite these measures, domestic resources have remained insufficient to cover all public expenditures and the government has had to rely increasingly on foreign aid. Identified disbursed aid

receipts rose from an estimated $26 million in 1973 to more than $100 million in 1977, the latter exceeding domestic capital formation by a substantial margin. (C)

Lackluster Growth Process

In the decade since independence South Yemen has barely begun to generate economic momentum. Inadequate statistics leave only an impressionistic picture for the early years, but social and institutional changes undoubtedly skewed domestic production, while stringent austerity measures must have rigidly contained private consumption. Private activity, which had provided a major share of domestic output, declined perceptibly; growth also was damped by the time lag between investment and output in the public sector. In all probability, real output declined in the several years following 1967, showing growth for the first time around 1970. Real economic growth during 1976-77 was on the order of 6 to 7 percent, driven mainly by transfers of remittances by Yemeni workers abroad, which account for one-third of GNP. In 1978, growth probably declined from the level of the previous two years because of a cutback in government spending on domestic development projects.(C)

Today, agriculture and fishing are the most important economic activities, supplemented by a small amount of manufacturing and provision of port services:

- Agriculture and fishing employ 45 percent of the labor force and yield 22 percent of GDP. Cereals occupy two-thirds of cultivated acreage, with recent emphasis on wheat; output of cotton, once the chief export crop, is on the decline as land is given over to irrigation schemes. Fishing is the fastest growing branch of the sector, showing gains due to improved equipment, more modern techniques, and increases in government-controlled prices.

- Industry makes up 8 percent of domestic output, mostly from an oil refinery in Aden operated by British Petroleum with a capacity of 170,000 b/d. Since 1973 production has consistently been below 70,000 b/d, the amount needed to cover costs. The downward trend reflects increased regional competition, declining demand for bunkering services, and the inadequacy of existing port facilities to handle large ships. Other industry consists of small manufacturing establishments that produce consumer goods, light machinery, and spare parts. Plans for industrial expansion focus on import substitution of equally small factories that will produce soap, oxygen, and acetylene and will process vegetable oils and dairy products.

- Porting activity supports a small amount of employment. Before closure of the Suez Canal, the port of Aden received more than 6,000 ships a year. Activity fell drastically, to 20 percent of previous levels, and in 1978 traffic was still less than half that of a decade earlier. Slow progress is being made in port rehabilitation to modernize cargo-handling equipment and to deepen shipping channels, although the restructuring of international shipping since 1967 makes it unlikely that Aden will ever regain its former stature. (C)

External Earnings and Foreign Aid

South Yemen's balance of payments was in perpetual deficit until 1977 when growth in domestic exports and rising receipts from expatriate workers resulted in a sizable surplus. A fundamental weakness is the trade balance, with sales of fish, cotton, coffee, and a few other items offsetting only 10 to 15 percent of the capital goods, intermediate products, and food and consumer items that must be imported. Food items typically account for 23 percent of imports and are equivalent in value to total domestic agriculture and fishing. Over the past five years, the direction of trade has shifted from socialist countries to industrial countries, primarily Japan and the United Kingdom. (C)

Rapid expansion of worker remittances has been instrumental in allowing for parallel growth in imports. During 1973-77 they were roughly equal to receipts of economic aid. In the early 1970s, government austerity measures and tough foreign exchange controls brought a decline in South Yemeni remittances; in the face of domestic manpower shortages and low labor productivity, further emigration was banned in 1973. However, the development boom in neighboring countries and resulting high wage levels prompted policy revisions to attract earnings from workers already abroad. Diplomatic missions overseas sought to assure nationals of

the safety of funds remitted to Aden. Higher interest rates were offered on nonresident bank deposits, and land and building materials were made available for emigrants to construct houses for themselves or their families. The incentives yielded a fourfold rise in remittances in 1974-77, to $180 million in 1977. Even this probably understates the actual flow of remittances, because the available data cover only those remittances that pass through the banking system. (C)

Foreign aid, mostly in the form of concessional loans, has also been an important source of payments support and development funds. In 1973-77, total economic aid receipts by South Yemen amounted to $442 million. Debt service payments were $1.5 million in 1977 and, given the concessionary nature of the lending, will pose little financial hardship for many years. (S)

Economic assistance was largely provided by Communist states in the early days of independence. The Arab countries became major benefactors in the mid-1970s as they tried to woo Aden from the Communist camp. The flow of much Arab aid and other financial resources was temporarily jeopardized in mid-1978 when the Arab League voted to suspend economic and technical aid because of Aden's role in the assassination of the North Yemeni President. The boycott was lifted in November 1978, however, having lasted too short a time to do any lasting damage to economic development. (S)

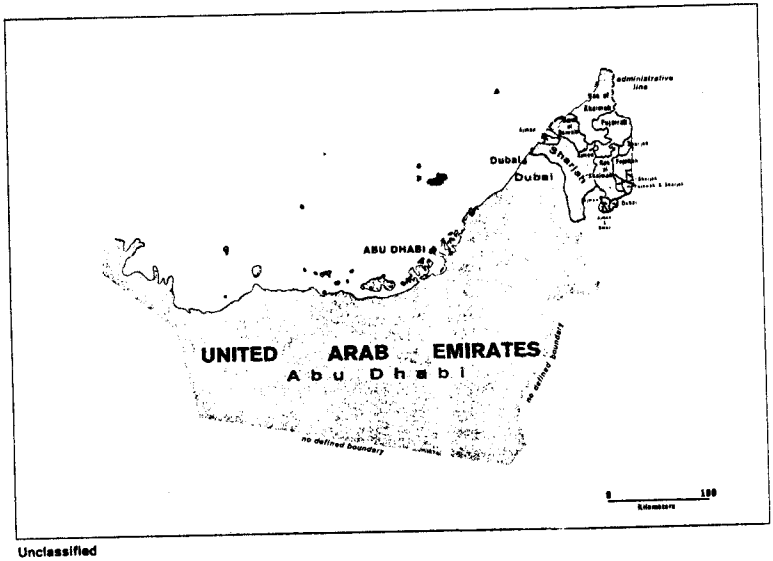
Outlook: Rather Gloomy

South Yemen's near-term economic prospects are not encouraging. Despite the recent lifting of the Arab League boycott, some members, especially the conservative Persian Gulf states, probably will balk at resuming former aid levels; the main alternatives would seem to be the USSR and Libya. The country is financially ill-equipped to modernize on its own; loss of Saudi aid in 1977 prompted government planners to cut new projects from the 1978 plan and to cut expenditures on ongoing projects. (C)

Over the longer haul, Aden's chances of achieving financial independence from its aid donors are slim. Development objectives in the Persian Gulf oil-producing states are generally being stretched out, which will lead to reduced demand for imported labor and a probable drop in worker remittances. Natural barriers to agricultural expansion will perpetuate dependence on food imports. Aden's government neither caters to nor inspires interest on the part of foreign investors, so far the search for oil has been in vain. (C)

Politically, the most serious threat to the Ismail regime is the possibility that a major element of the population might become disaffected and organize insurrection. Friction between the army and the militia is perhaps a case in point. Insurrection also could be incited by a faltering economy. Aside from a coup or a rebellion, few other near-term developments would likely lead to the downfall of the South Yemen regime. If Ismail dies—and he is often described as being in poor health—or were assassinated, his associates would probably move quickly to arrange a firm succession. Since Ali's former colleagues have been purged, any new government would be likely to follow a policy line similar to Ismail's. Until such time as its Arabian Peninsula neighbors overcome their military limitations, South Yemen can be expected to support insurgency in the region, and on this count Aden will remain essentially a renegade in the Arab world. (S)

Population:	860,000; 28 percent native
Government:	Federation of tribal Shaykhdoms headed by a president
Head of State:	Shaykh Zayid ibn Sultan Al Nuhayan
Religion of Native Population:	90 percent Sunni Muslim, 10 percent Shia Muslim
Literacy Rate:	25 percent
Student Share of Population:	25 percent
Oil Production:	1.8 million b/d in 1978
Official Foreign Assets:	$14.4 billion in June 1978
Gross Domestic Product:	$13.3 billion in 1977
Size of Armed Forces:	24,700 (paper strength)
National Police Force:	6,600 (paper strength)



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United Arab Emirates: Pressures for Greater Unity

The United Arab Emirates (UAE), founded in 1971 following the British withdrawal from the Arabian Peninsula, is a group of seven shaykhdoms bound together in a loose federation. From the start, basic disputes over the degree of centralization, the organization of the bureaucracy and the armed forces, and the composition of the budget have strained the bonds linking the shaykhdoms. The large inflow of oil revenues—mostly to the dominant shaykhdom, Abu Dhabi—has spawned numerous development projects, many poorly conceived. These projects have required so many imported workers that natives have become a minority of the resident population. (C)

President Shaykh Zayid's efforts to impose greater central control and to distribute the burden of the federation budget more equitably are being undermined by the propensity of other shaykhs for independent action and by his own uneven exercise of power. The Iranian upheaval is generating some pressure for the reform of the federal government. While the UAE faces an apparently weak internal security threat, it is ill-prepared for any serious challenges that might be generated by the Iranian turmoil or other disruptive forces in the region. (C)

The Federation

The shaykhdoms of the UAE were formerly known as the Trucial States—Abu Dhabi, Dubai, Ajman, Fujayrah, Ras al-Khayman, Sharjah, and Umm al-Qaywayn. The first two are wealthy oil producers, the latter five, relatively poor. Shaykh Zayid of Abu Dhabi has been President of the central government since its inception; Shaykh Rashid al-Maktum of Dubai is the Vice President. Zayid rules with the Supreme Council of Rulers (a body composed of the seven shaykhs), which functions as the highest executive and legislative authority. A simple majority is needed in the Supreme Council for passage of legislation, but the majority must include Abu Dhabi and Dubai. A Federal National Assembly, a consultative body made up of 40 members appointed by the rulers of the seven emirates, provides advice on legislation. (C)

Formal institutions of the central government are weak. All the rulers exercise a considerable amount of power in their own shaykhdoms, with Zayid and Rashid the most influential in the federal government. Politics in the emirates is controlled by a small elite representing the ruling families and their associates. Leading figures in the merchant community and tribal chiefs are viewed as junior partners having largely a consultative and collaborative role. (C)

Government is conducted according to Islamic, Arab tribal traditions. Decisions reflect a varying degree of family and tribal consensus as well as religious custom. This reliance on tradition and the lack of any active opposition leaves the shaykhs with the mistaken impression that the system works well, providing all with easy access to the center of authority. The upper classes have direct access to the rulers, and the lower classes can personally petition their ruler at a *majlis* or open court, in accordance with tribal tradition. The less traditional middle class, however, is believed to regard such petitioning as beneath its dignity and is thus not well represented. (C)

Difficulties of Sharing Power

The principal internal threat to the UAE is the old dynastic rivalries among the shaykhdoms. The shaykhs are still uncomfortable with the idea of assigning power and prerogatives to an entity that threatens their traditional autonomy and might not protect their individual interests. Disagreements proliferate on all subjects, including the location of the federal capital, the distribution of Cabinet posts, representation of the poorer shaykhdoms, the federal budget, and the ill-defined borders. At the heart of these disputes is a clash between Zayid, the leading exponent of the federation and a strong central government, and Rashid, the principal supporter of shaykhs' rights. Their conflict over the distribution of authority and the exercise of power as well as the allocation of economic development projects among the individual emirates, poses the most serious threat to the future of the federation. (C)

United Arab Emirates: Government Leaders

Name (Emirate)	Position	Background
Zayid ibn Sultan Al Nahayan (Abu Dhabi)	President	Amir of Abu Dhabi
Rashid ibn Said al-Maktum (Dubai)	Vice President	Ruler of Dubai
Maktum ibn Rashid ibn Said al-Maktum (Dubai)	Prime Minister	Oldest son of Ruler of Dubai
Hamdan ibn Mubarak Al Nuhayan (Abu Dhabi)	Deputy Prime Minister	Cousin to Ruler of Abu Dhabi
Said al-Raqbani	Minister of Agriculture and Fisheries	
Muhammad Said al-Muhi	Minister of Communications	
Muhammad ibn Rashid ibn Said al-Maktum (Dubai)	Minister of Defense	Son of Ruler of Dubai
Sultan ibn Ahmad al-Mualla (Umm al-Qaywayn)	Minister of Economy and Trade	Son of Ruler of Umm al-Qaywayn
Abdallah ibn Umran Taryam	Minister of Education and Youth	
Nasir ibn Ali Hamid	Minister of Electricity and Water	
Hamdan ibn Rashid ibn Said al-Maktum (Dubai)	Minister of Finance and Industry	Son of Ruler of Dubai
Rashid Khalifa al-Suwaydi	Minister of Foreign Affairs	
Khalifa al Rumi	Minister of Health	
Ahmad ibn Hamid Al Nuhayan (Abu Dhabi)	Minister of Information and Culture	Cousin to Ruler of Abu Dhabi
Mubarak ibn Muhammad Al Nahayan (Abu Dhabi)	Minister of Interior	Cousin to Ruler of Abu Dhabi
Muhammad Abd al-Rahman al-Bakr	Minister of Justice, Islamic Affairs, and Religious Trusts	
Abdallah al-Mazrui	Minister of Labor and Social Affairs	
Mani ibn Said al-Utayba	Minister of Petroleum and Mineral Resources	
Said Ahmad al-Ghubash	Minister of Planning	
Muhammad Khalifa al Kindi	Minister of Public Works and Housing	
Ahmad ibn Sultan al-Qasimi (Sharjah)	Minister of State	Cousin to Ruler of Sharjah
Saud [illegible]	Minister of State for Cabinet Affairs	
Sultan Abdallah Al al-Nuaymi (Ajman)	Minister of State for Foreign Affairs	Family relationship uncertain
Hasan Ja'far Ali	Minister of State for Interior Affairs	
Abd al-Aziz ibn Hamid al-Qasimi (Ras al-Khaymah)	Minister of State for Supreme Council Affairs	Nephew of Ruler of Ras al-Khaymah

[illegible] the Cabinet positions are held by members of the ruling families of the seven emirates, as shown above. All are Sunni Muslim.

[illegible]

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Domestic political pressure to overcome these differences is mounting following the turmoil in Iran. Several members of the Federal National Assembly are particularly dissatisfied over the leadership's preoccupation with infighting rather than national security, political development, and the legislative process. In an unusual step for the UAE, a newspaper owned by an assemblyman has publicized its concern. Several high officials also have expressed privately their dismay over the quality and style of UAE leadership, although dissent does not seem to have spread to many middle level bureaucrats or to the less politically minded citizens. The demands and concerns now appear to be growing so that Zayid and Rashid may have to do more than paper over their differences as they have in the past. (S NF)

Uncontrolled Growth

The lack of cohesive national goals and a united leadership has led to many mistakes and much wastage in the conduct of the modernization drive in the UAE. Prior to the start of oil production in 1962, the area was one of the poorest in the world, with an economy based on subsistence agriculture, fishing, and Dubai's trade (legal and illegal) with neighboring countries. An increase in oil production along with the 1973-74 hike in oil prices boosted oil revenues from $1 billion in 1973 to about $9 billion in 1977. This surge fueled an average annual rate of growth of about 20 percent in real nonoil national output in 1974-78. Spread over a small population of 860,000, the oil boom has transformed this OPEC producer into one of the world's richest nations, with a per capita income of more than $15,000. (C)

The oil boom has been wild and largely uncontrolled. The federation has tried to develop basic transportation and communication networks, industrialize the country, and provide social services for the population all at once. Lack of orderly planning and political cooperation has led to wastage, duplication of facilities, and a short-lived banking crisis. Serious supply constraints have arisen, particularly in the construction sector, because of labor shortages and inadequate supporting services. Inflation reached 31 percent in 1976 and registered a still hefty 12 percent in 1977. (C)

Some of the gross inefficiency in development can be tied directly to prestige projects and the competition among the emirates. Four international airports were built within four hours' driving time of each other; plans exist for three more. Dubai is completing the world's largest drydock and a 74-berth port to service a new industrial city complete with the world's largest gas-fired aluminum smelter. These facilities will compete with already existing ports in Abu Dhabi and Dubai, a new container port in Sharjah, and similar structures in nearby Bahrain. (C)

The frenzied growth of earlier years is slowing as major projects are completed; nonoil GDP grew only an estimated 11 percent in 1977 compared with about 40 percent in 1974. Furthermore the central government remains a long way from comprehensive planning, and each emirate remains responsible for its own oil and financial affairs.

- With enough oil to support current production levels of 1.5 million b/d for 60 years, *Abu Dhabi* will have sufficient revenues to continue its development program. Emphasis, however, is on increased exploration, utilization of gas reserves, and conservation measures such as a production ceiling to ensure a flow of wealth for future generations.

- *Dubai*, with its oil likely to run out in another decade, is concentrating on the underpinnings of economic development such as roads to build a basis for industry and expand its traditional trading activity.

- The *other emirates* are energetically seeking oil and gas but in all probability will have to rely on Abu Dhabi's oil wealth to pay for their small-scale development. (C)

The Military and Unity

Most of the emirates have supported modernization of the military, which has been given a high priority by Abu Dhabi. Defense spending has risen from less than $60 million in 1973 to more than $680 million in 1977—the fastest pace in any of the Arabian states. Spending has been boosted by purchases of an air defense system, antitank missiles, fighter aircraft, and naval vessels—all primarily from Western Europe. Much of the equipment is still on order, and actual deliveries in 1973-77 amounted to only $280 million. (S NF NC)

In 1976, the individual emirate forces were officially merged under a single central command with a paper strength of 24,700 men. In practice, not all of the units are up to par or participate jointly in operations and training. The end of Iran's gendarme role in the Gulf is putting more pressure on the individual shaykhs to coordinate military activity in order to deal with perceived threats to national and regional security. The national police force, trained by the British and Jordanians, traditionally has been more cohesive than the armed forces and apparently has been fairly efficient in the containment of radical nationalists and dissidents from abroad. The bulk of the armed forces are citizens of Oman, the Arab sultanate to the south of the UAE. The Omanis apparently pose no immediate threat but could be vulnerable to future subversive efforts. The UAE is attempting to replace most Omani officers with UAE nationals. (S NF)

Financial Arrangements

In UAE finances, Abu Dhabi is almost synonymous with the federation. The distinction between private and government monies is blurred, however, by the difficulty of separating Zayid's personal financial dealings from his transactions on behalf of the government. Although Zayid has tried to get the rulers of the other emirates to help finance the central government budget, Abu Dhabi still funds almost 90 percent of UAE expenditures. Despite remarkable outlays for development and luxury foreign imports, Abu Dhabi's oil revenues have been so large that Zayid has been able to amass a sizable foreign asset portfolio and disburse foreign aid at will. (C)

Yearend 1978 UAE asset holdings including international reserves totaled an estimated $15 billion. They would have been even higher had the UAE not disbursed $2.6 billion in official development assistance to LDCs in 1974-77. Of the nonreserve portion of foreign official assets (roughly $6 billion), most is concentrated in real estate and corporate securities in the United States and Western Europe. Portfolio management follows the patterns set up by Abu Suud, a Palestinian who has earned a reputation as the father of Kuwaiti investment policy. Aid disbursements have been handled less efficiently, a bewildering multitude of loans and grants having been made by numerous government and private organizations and individuals. Zayid has gained a reputation for generosity. About half of the aid has gone to the Arab confrontation states, with other Arab states, friendly Islamic countries, and anti-Israeli nations in black Africa next in line. (S NF)

In contrast to Zayid's personal and governmental generosity, Dubai's leader, Rashid, has the reputation of a tightwad despite his respectable oil income. He has used foreign borrowings to finance his extravagant development projects in Dubai. Indeed, Dubai's debt service ratio may soon reach 35 percent (in stark contrast to 2.5 percent for the entire UAE), forcing Rashid to draw down his emirate's official foreign exchange reserves, delay projects, or seek a bailout from Abu Dhabi. (S)

Natives and Foreigners

Although most citizens of the UAE now have the opportunity to better themselves and enjoy a wide variety of social services, the wealth is still unevenly distributed. About 25 percent of the native workforce still engages in agriculture and fishing, and those following traditional methods of farming probably have incomes equivalent to only $100 a year; many urban dwellers in the poorer emirates have incomes only slightly higher. Citizens are often frustrated because they do not have the skills to qualify for better paying jobs. Nevertheless, the still largely traditional characteristics of society, the relatively homogeneous religious mix (90-percent Sunni Muslim, 10-percent Shia), and close police security have thus far spared the UAE any serious radicalization. (C)

Natives, however, comprise less than 30 percent of the population. Foreigners pulled in by the oil boom—primarily Pakistanis, Indians, Omanis, Yemenis, and Palestinians—dominate the labor force, especially in Abu Dhabi and Dubai where they account for 90 percent of the urban workers. This influx of foreigners naturally has aroused considerable concern among UAE leaders about preserving local values and institutions. The government is making an effort to provide education and vocational training in an attempt to improve the skills of the domestic labor force. The UAE also has instituted labor laws aimed at limiting unsponsored workers and illegal aliens. The regulations prohibit employment of foreign laborers for more than five years and require government consent for job changes. Strikers face immediate deportation. The government also has tightened visa restrictions to screen the workers coming into the country more closely. (C)

Thus far the immigrant communities have not generated serious dissidence or dissatisfaction. Most of the skilled workers have been content with their high salaries. In the relative openness of the economy, the wealthy nonnationals have purchased land; they and the immigrant merchants even tend to identify with the existing regime. The most serious threat to stability is posed by the unskilled foreigners, who receive harsh treatment under the labor laws. The two-year slowdown in the economy's growth, particularly in construction, has intensified competition for jobs and increased the threat of deportation. (C)

Outlook: Centralize or Perish

The UAE's stability depends in large part on the leaders' ability to create a more effective central government. The National Federal Assembly and the Council of Ministers has submitted a list of recommended government reforms to the UAE leaders. An economic development plan coordinated with representatives of each emirate is being prepared by the Ministry of Planning. (C)

Under pressure to accept further concentration of power, Rashid of Dubai appears increasingly isolated. His position has been weakened by the toppling of his supporter, the Shah, and by the subsequent loss of trade with Iran. We believe Rashid and several other shaykhs, nonetheless, will continue to resist centralization and increased scrutiny of their finances and internal security by the central government. Popular frustrations with the system's inefficiencies should continue to push the federal government toward greater unity and effectiveness, adding to the prestige and power of Zayid and other forward-looking elements. Over the longer term, the Federal National Assembly stands a good chance of obtaining enhanced influence. (S NF)

While necessary to eliminate waste and duplication, coordinated economic planning among the emirates is probably further down the pike than tighter political cooperation. At a minimum, economic cooperation between the other emirates and Abu Dhabi will be needed to handle the questions of Dubai's large foreign debt, the exploitation pattern of the limited oil reserves, and the provision of nonoil income sources. Even though Abu Dhabi's oil conservation policies will cut into the UAE current account surplus (it already has fallen to $2 billion from the 1974 peak of more than $4 billion), oil revenues will remain ample to support orderly social and economic development. (C)

The foreign population will continue as a potentially destabilizing factor, if only on the basis of sheer numbers. However, its heterogeneity and high wages and UAE support of Arab causes act as constraints to unified action. The Palestinian population of 40,000 to 80,000 is the most cohesive politically, but even it has not been restive. (C)

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Arabian Peninsula
Social Indicators

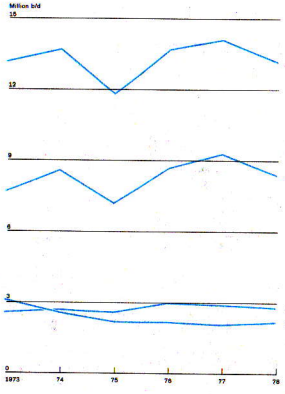
Figure A-1

	Bahrain	Kuwait	North Yemen	Oman	Qatar	Saudi Arabia	South Yemen	United Arab Emirates	LDC Average
Literacy Percent	40	40	15	10	25	20	10	25	51
Primary School Enrollment Percent of 6–11 age group	NA	90	25	44	112	34	78	75	78
Per Capita Income US $	5,000	10,700	350	3,000	22,500	9,450	325	15,500	450
Number of Telephones Per 100 persons	11.8	13.0	0.1	1.3	6.5	2.5	0.6	10.8	1.3
Population Growth Annual change percent 1965-75	3.4	7.7	2.5	3.1	8.0	3.6	3.0	4.4	2.6
City Population Share of total	18	80	7	5	68	25	35	80	33
Urbanization Rate Percent	3.6	10.8	NA	4.8	9.8	6.5	NA	NA	5.4
Calories Supplied Percent of requirements	NA	NA	84	NA	NA	86	83	NA	101
Life Expectancy at Birth Number of years	45	64	37	47	NA	42	45	NA	51

Unclassified

Figure A 3

Arabian Peninsula
Trends in Crude Oil Production[1]



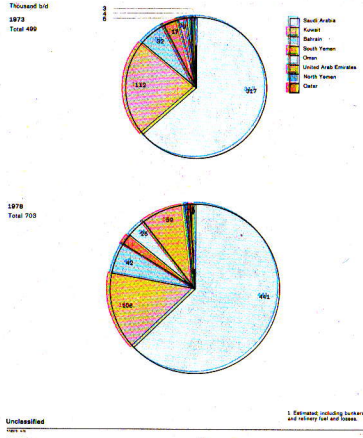
1. Excluding natural gas liquids.
2. Bahrain, Oman, Qatar, and United Arab Emirates.

Unclassified

Secret

Figure A 3

Arabian Peninsula
Oil Consumption[1]



1. Estimated, including bunkers and refinery fuel and losses.

Unclassified

Figure A-4

Arabian Peninsula
Refining Capacity, 1978

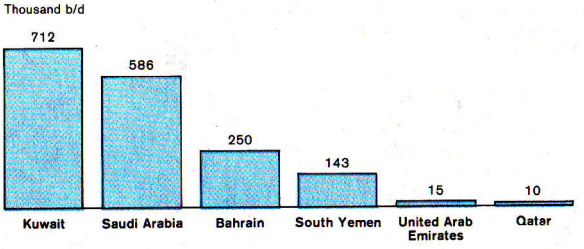
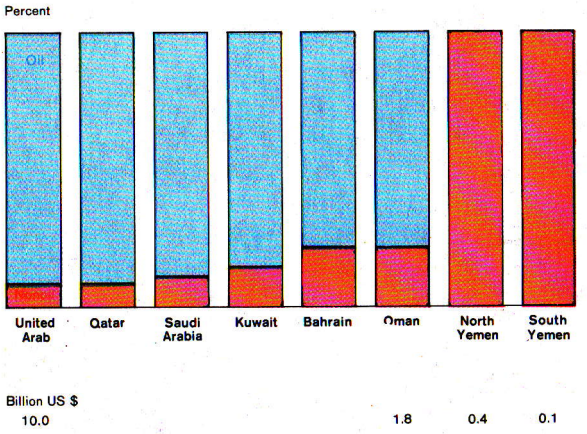


Figure A-5

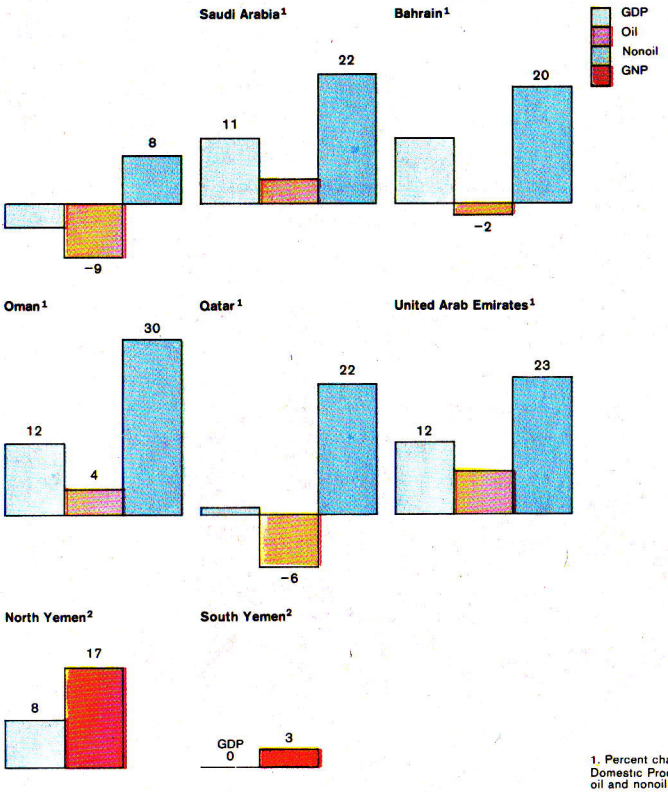
Arabian Peninsula
Composition of Budget Revenues, FY 1977



1. FY 1976.

Figure A-6

Arabian Peninsula
Change in Real National Output, 1974–77



1. Percent change in Gross Domestic Product (GDP), oil and nonoil sectors.

2. Percent change in GDP and Gross National Product (GNP), which includes remittances from workers abroad.

Unclassified

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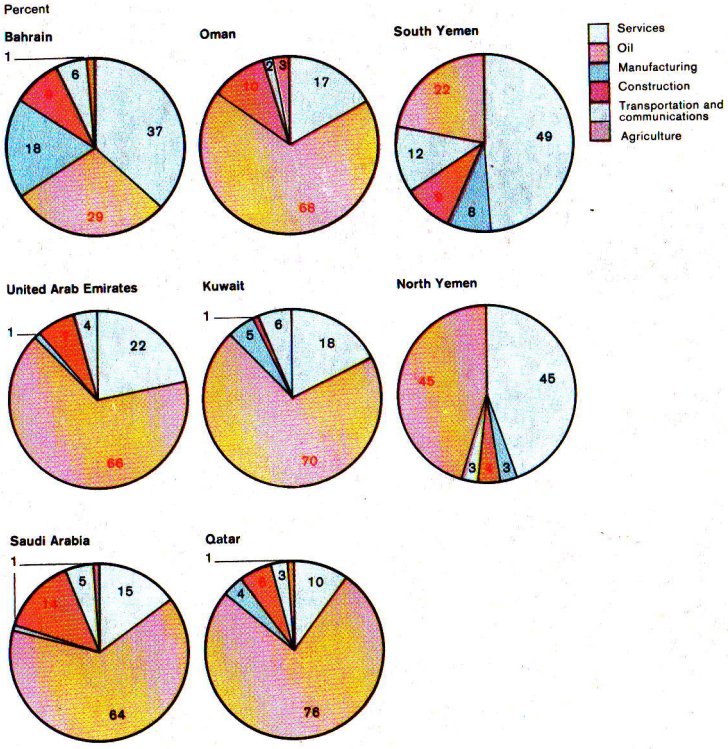
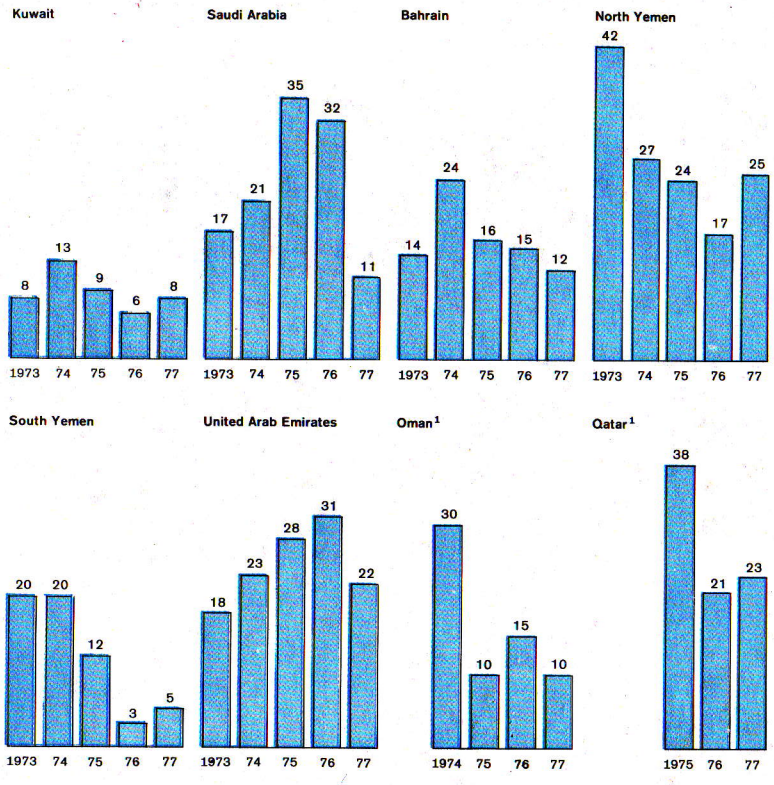
Figure A-7

Arabian Peninsula
Composition of National Output, 1977



Arabian Peninsula
Domestic Price Trends

Figure A-8



1. Consistent data series not available for earlier years.

Unclassified

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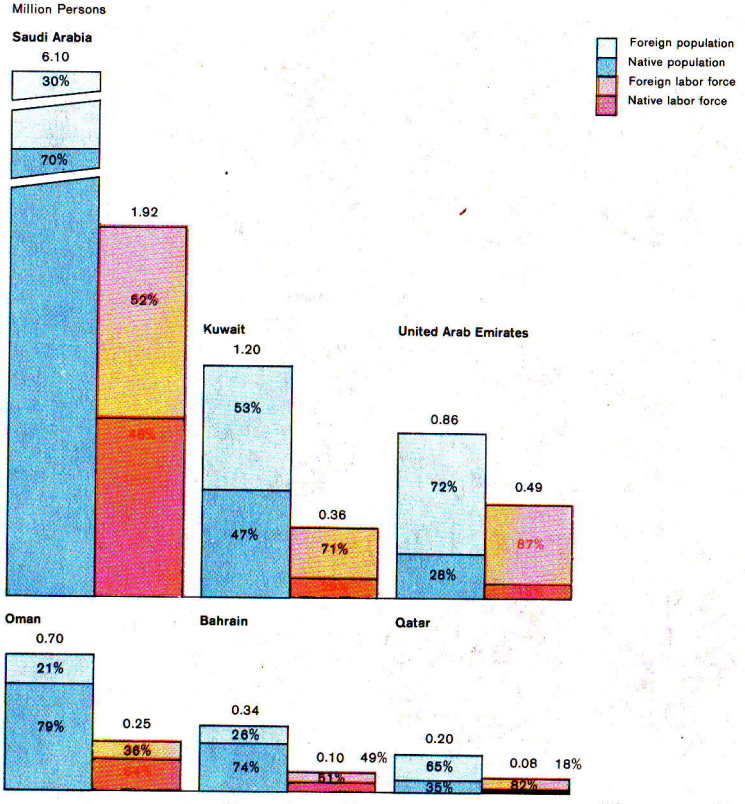
Arabian Peninsula
Composition of Population and Labor Force, 1978

Figure A-9



Unclassified

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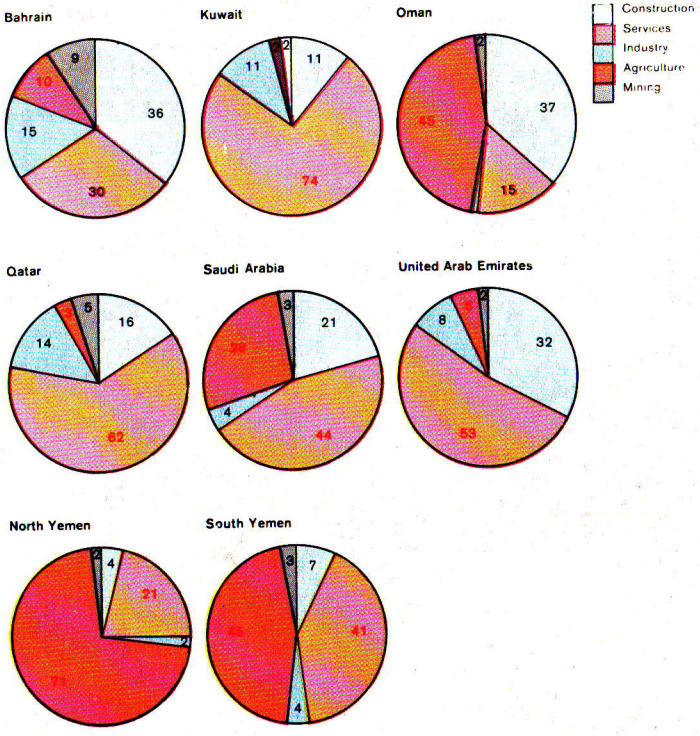
Figure A-10

Arabian Peninsula
Employment by Sector, 1977

Percent



Unclassified

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Arabian Peninsula
Budget Expenditures

Figure A-11

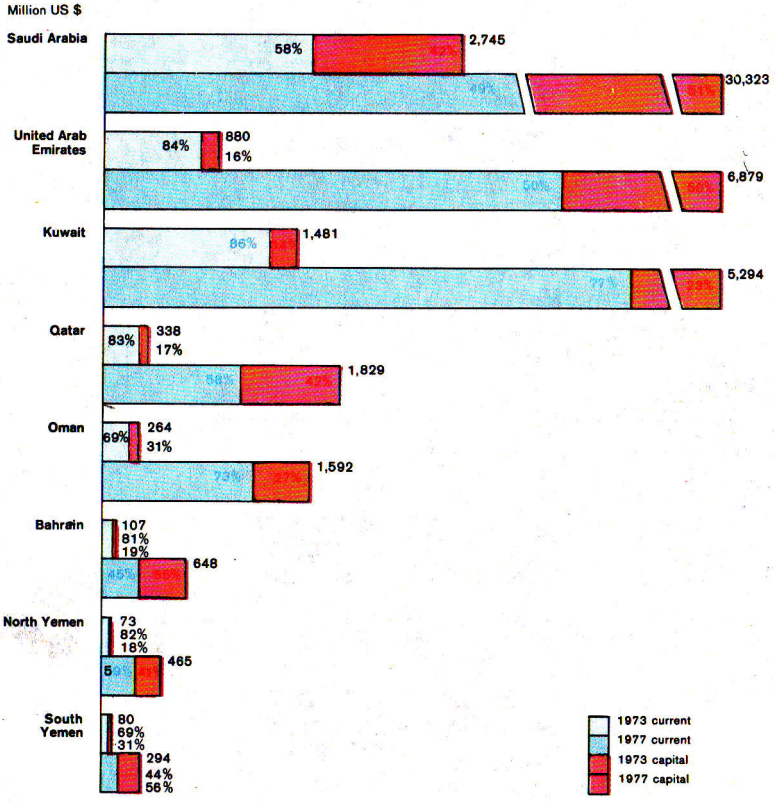

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Figure A-12

Arabian Peninsula
Defense Spending as Share of National Output, 1977

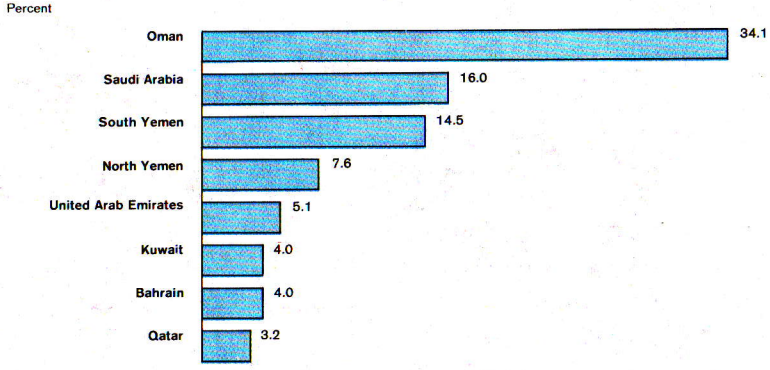

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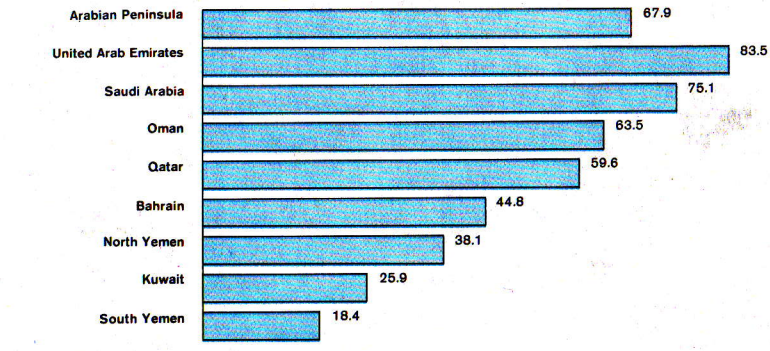
Figure A-13

Arabian Peninsula
Defense Expenditures Growth, 1974–77



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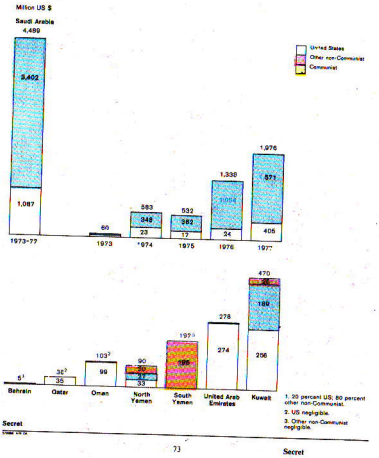
Arabian Peninsula
Inflows of Military Equipment

Figure A-14



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Arabian Peninsula
Import Trends

Figure A-15

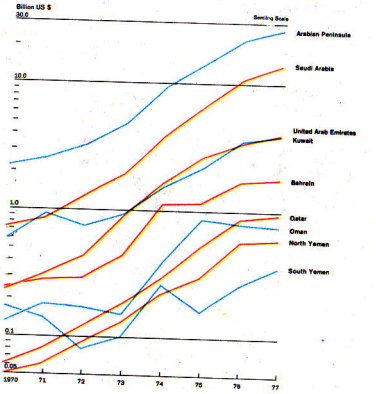

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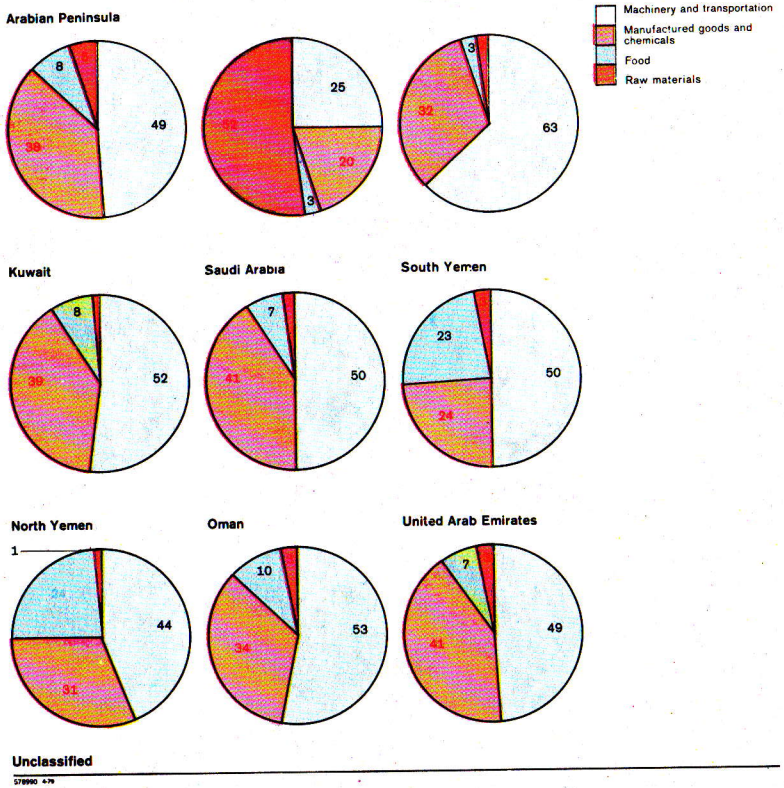
Figure A-16

Arabian Peninsula
Composition of Imports, 1977



Arabian Peninsula
Source of Imports, 1977

Figure A-17

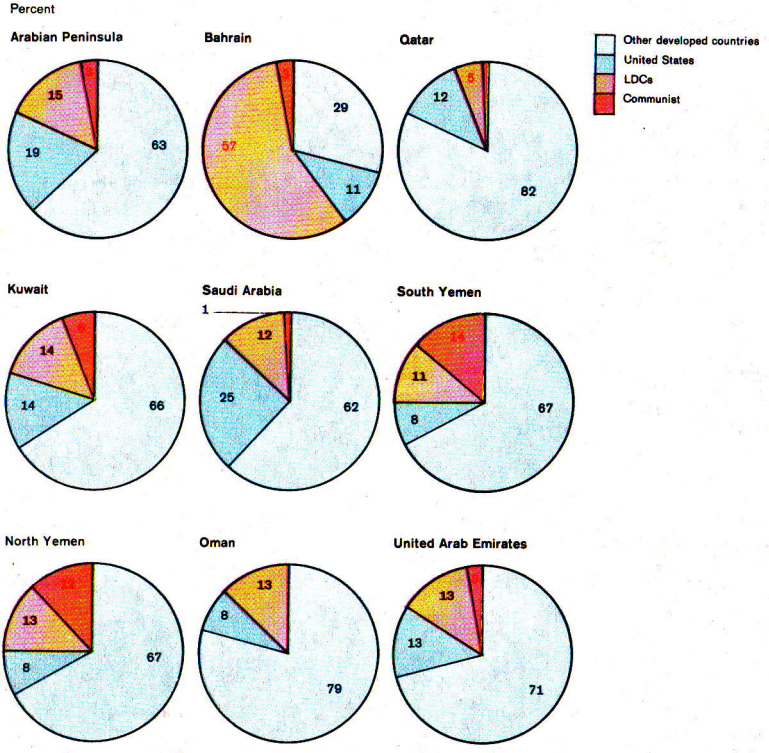


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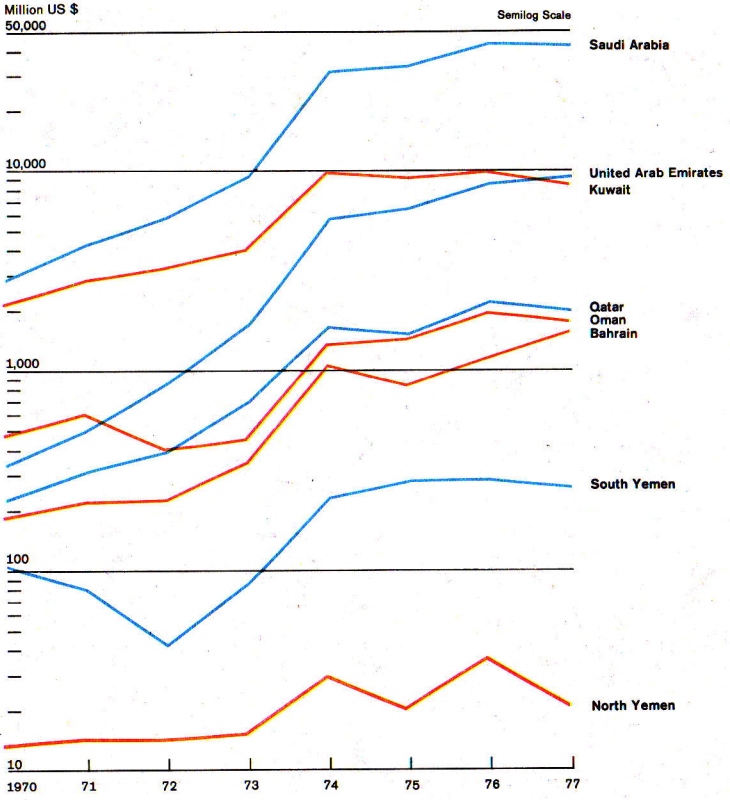
Figure A-18

Arabian Peninsula
Trends in Export Value



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Arabian Peninsula
Composition of Exports, 1977

Figure A-19

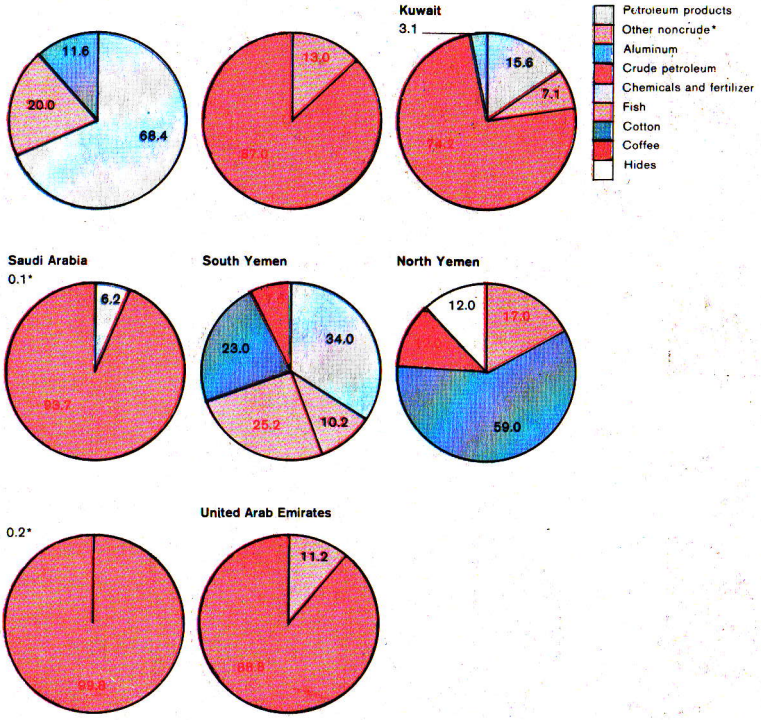

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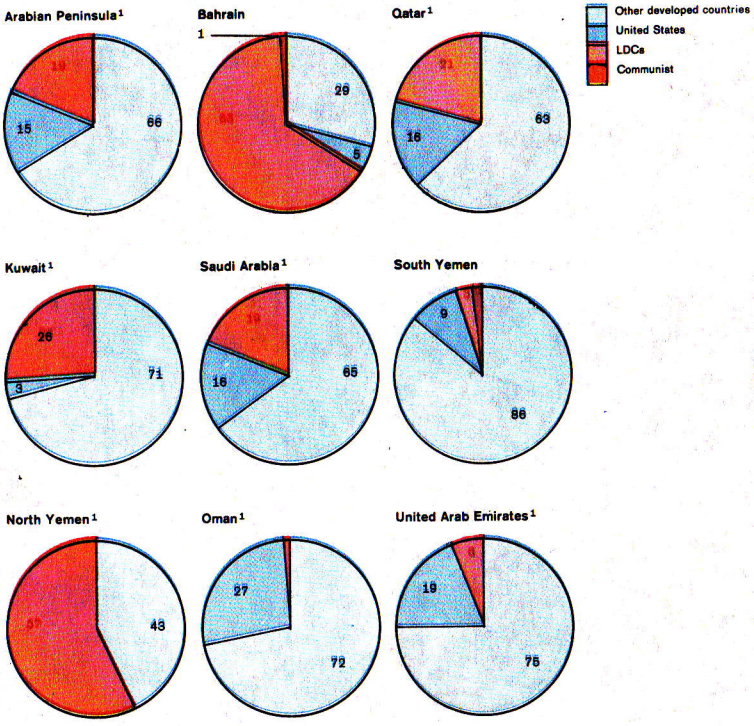
Figure A-20

Arabian Peninsula
Destination of Exports, 1977



Unclassified

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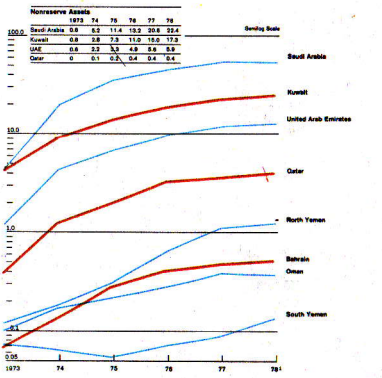
Figure A-21

Arabian Peninsula
Trends in Official Foreign Assets

Billion US $

Nonreserve Assets

	1973	74	75	76	77	78
Saudi Arabia	0.8	5.2	11.4	13.2	20.8	22.4
Kuwait	0.8	3.8	7.3	11.0	15.6	17.3
UAE	0.6	2.2	3.3	4.0	5.6	5.9
Qatar	0	0.1	0.2	0.4	0.4	0.4



1. As of 30 June 1978.

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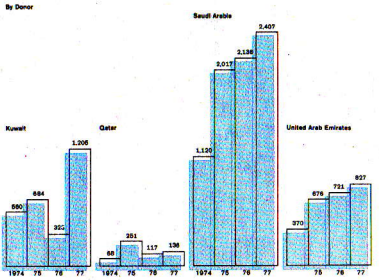
Figure A-22

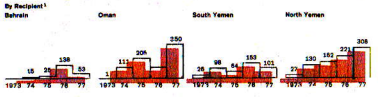
Arabian Peninsula
Gross Disbursements of Economic Aid

Million US $

By Donor



By Recipient[1]



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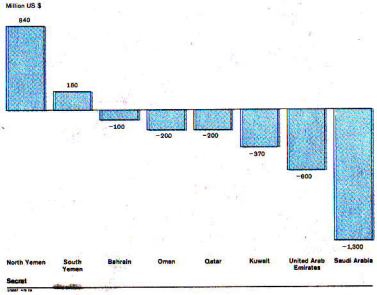
Arabian Peninsula
Net Worker Remittances, 1977

Figure A-33



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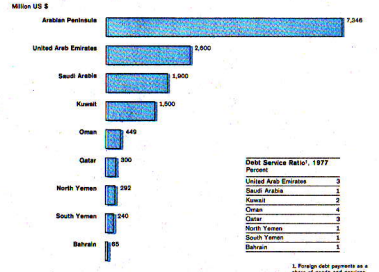
Arabian Peninsula
Disbursed Foreign Debt, 1977

Figure A-34



Debt Service Ratio[1], 1977 Percent	
United Arab Emirates	3
Saudi Arabia	1
Kuwait	2
Oman	4
Qatar	3
North Yemen	1
South Yemen	1
Bahrain	1

1. Foreign debt payments as a share of goods and services export receipts.

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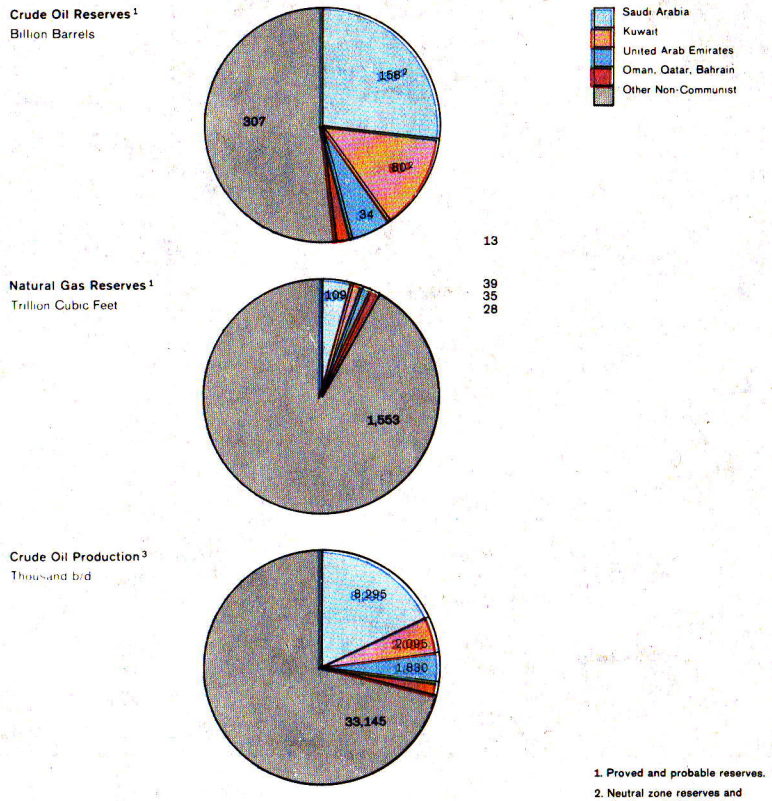
Figure 1

Arabian Peninsula
Importance to Non-Communist Energy, 1978



1. Proved and probable reserves.

2. Neutral zone reserves and production split 50-50 between Saudi Arabia and Kuwait.

3. Excluding natural gas liquids.

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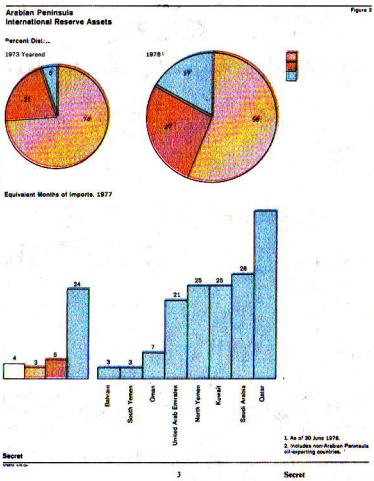
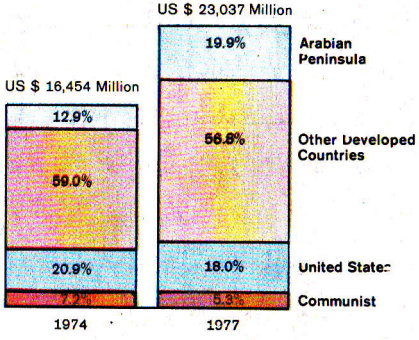


Arabian Peninsula
Importance as an Economic Aid Donor

Figure 3

Total Aid to LDCs



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